SELECT COMMITTEE ON CONSUMER CREDIT

Proceedings of the hearing held at the Parliament Buildings, Toronto, Ontario on the 14 thday of August, 1963.

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---ON RESUMING AT 10:00 A.M., AUGUST 14, 1963.

THE CHAIRMAN: We have with us this morning Mr. O. Rechtshaffen of the Security Capital Corporation Limited and Mr. Rechtshaffen has a brief, I believe. I will ask him to come forward now. Would you care to sit or stand? Whichever you prefer.

MR. RECHTSHAFFEN: Thank you. Perhaps I'll stand. It won't take very long.

Mr. Chairman and members of the Committee. I think that perhaps I best read this brief.

Security Capital Corporation Limited was incorporated as a Public Company on April 26th, 1962, for the purpose of making mortgage loans available on a rational basis at fair terms in that area of the mortgage market not ordinarily served by existing financial institutions such as trust companies and life insurance companies.

The first public issue was offered on the market in June, 1962, the proceeds of which put the Company in funds to commence its lending operations. From that time to the present, mortgages receivable have grown in amount from nil to $1,750,000. This rapid growth is evidence of the ready acceptance by the borrowing public of the Company's services based on fair terms and costs.

The lending policy and scope of operations is outlined next. Security Capital Corporation Limited both makes and acquires first and second mortgage loans provided that the total amount of the

encumbrances against the property including our mortgage do not exceed 80% of the property's fair market value.

The scope of the Company's business includes residential, commercial and industrial real estate. However, 85% of the mortgages at the present time are secured by residential properties. The average loan on the books of the Company is approximately $,4600.

As a matter of general policy, the Company provides loans for terms of up to ten years and in almost every instance the stipulated payments fully amortize the loan by the end of its term. Most mortgages contain a privilege of prepayment at any time upon payment of from three to six months' interest on the then outstanding balance of principal.

The Company's annual effective return on mortgages generally ranges between 12% and 15%, but in special circumstances which require greater supervision and entail higher risk and servicing costs, up to 1½% per month may be charged. Almost all of the Company's loans are made at a straight rate of simple interest without bonus.

The borrower is responsible for the payment of legal fees in accordance with the recommended tariff of his local Law Association as well as the usual appraisal fee which ordinarily does not exceed $25.00 for a single family residence.

Now, that is a brief outline of the operations of Security Capital Corporation Limited. I

encumbrances against the property including the mortgage do not exceed 80% of the property's fair market value.

The scope of the Company's business includes residential, commercial and industrial real estate. However, 90% of the mortgages at the present time are secured by residential properties. The average loan on the books of the Company is approximately $4,000.

As a matter of general policy, the Company provides loans for terms of up to ten years and in almost every instance the stipulated payments fully amortize the loan by the end of the term. Most mortgages contain a privilege of prepayment at any time upon payment of from three to six months' interest on the then outstanding balance of principal.

The Company's normal effective return on mortgages generally ranges between 12% and 15%, but in special circumstances which require greater supervision and entail higher risk and servicing costs, up to 1½% per month may be charged. Almost all of the Company's loans are made at a straight rate of simple interest without bonus.

The borrower is responsible for the payment of legal fees in accordance with the recommended tariff of the local Law Association as well as the small appraisal fee which ordinarily does not exceed $50.00 for a single family residence.

Now, that is a brief outline of the operations of Security Capital Corporation Limited. I

should now like to make some general observations on the broader aspects of the inquiry.

I'm going to refer to The Interest Act, Chapter 156 of the Revised Statutes of Canada, 1952 and Section 6 particularly.

Although legislation concerning interest is a matter of federal jurisdiction, the terms of reference of this study include "...investigation of means by which total charges for borrowing money may be revealed in regard to land mortgages ...".

Therefore, I should like to comment on the necessity for every mortgage of real estate, which is payable in blended payments of principal and interest, to contain a statement of the rate of interest "calculated yearly or half-yearly not in advance". This requirement of Section 6 of the Interest Act leads to considerable confusion and some abuse.

This Section was no doubt enacted as a safeguard for the mortgagor, but in fact in many instances of mortgages held by private individuals, this very Section is abused to gain more interest than they are entitled to. Frequently the private investor, using simple arithmetical calculations, charges interest on the original amount of principal for a full six months, notwithstanding that interim monthly payments of principal and interest have been received. At the end of the six months, the interest for six months on the original principal balance is deducted from the total payments received and the remainder is credited on principal to arrive at the new principal balance.

Interest is charged on the new principal balance for another six months and so on.

The result is a much higher cost to the borrower, because he has not received credit for the intervening monthly payments made on account of principal, except once every six months.

It is my respectful submission that only an actuary is capable of calculating interest in accordance with the present wording of Section 6 of the Interest Act. A simple amendment would perhaps solve the problem. The amendment might be to delete the words "yearly or half-yearly" leaving the Section to read "calculated at the same intervals as the stipulated mortgage payments, not in advance". In that way, interest would be calculated on the declining balance of principal owing from time to time and would be calculated as frequently as payments are required to be made, and would still prevent anyone charging interest in advance.

The simpler that any law with regard to the calculation of interest is, the more readily it will be understood by the borrower. It enables him, using simple arithmetic, to calculate interest himself so that he may compare the relative virtues of alternative loans that may be available to him.

In my opinion, not one borrower in one thousand could caluclate interest correctly according to the present wording of Section 6 of the Interest Act. If anyone here doubts that statement, may I offer the problem as a challenge to occupy many hours of your

spare time, and I suggest your answers will not agree with the calculations of an actuary.

I should like to refer to the conditions in the mortgage market and the abuses, and an opinion as to what may, in time, result in a cure for the present abuses.

It is my respectful submission that the fundamental problem before the Select Committee is not one which stems from lack of adequate regulatory legislation, but rather one which stems from a lack of a proper economic marketplace, in which the full force of effective competition brings about an orderly and fair price for a product or service.

The abuses of the mortgage business which are being examined are in some ways comparable to the racketeering and disregard for law which existed during the Prohibition era in the United States. Prohibition brought with it lawlessness and illicit traffic in liquor because the legitimate sources were curtailed, but public demand nevertheless continued. It was to be expected that illegitimate operators would spring up to fill that demand.

Although there were and are legitimate institutions with strong financial backing providing first mortgage loans on reasonable terms, until only a few years ago, there were no comparable corporate sources of secondary mortgage financing. That field was left to the mortgage brokers who acted as the connecting link between the needy borrower who did not know where to turn and the private lender.

Under the best of circumstances, loan terms and charges varied from broker to broker and lender to lender, with no real logic because there were no adequate sources of second mortgage funds on a continuing basis from strong institutions with standardized rates.

The battle cry of the second mortgage business was strictly "caveat emptor". The lender and the broker both tried to get as much as possible from each borrower, they wearing the armour of expert knowledge and having the weapons of considerable experience, and the borrower joining battle against them relatively nude of armour or weapons adequate for such a combat. The outcome is readily predictable.

The reason such a situation could exist for so long in the past is that although the borrower might have known that he was making an improvident loan, unfortunately he had no alternative source for the money, money he needed on the lower payments a mortgage loan provides.

The possible long range solution to the problem stems from the recent entry into the mortgage market of companies such as Security Capital Corporation Limited which provides strong and effective competition for the borrowers' business, and in time, as the public becomes aware of the services and facilities of companies such as ours, the sharp operators responsible for the present abuses will be forced out of business for lack of customers.

Borrowers are invited to deal directly

with the Company without the intervention of a broker or commission agent, thereby at once eliminating the heavy charges ordinarily incurred for arranging a loan. One does not need an agent to arrange a loan with a bank or a consumer loan company and it is not now necessary to have such an agent to obtain a mortgage loan. By being able to raise money from the public, companies such as Security Capital Corporation Limited can provide a constant source of mortgage money to the borrowing public on a standardized and rational basis.

The rate of interest charged does not vary according to the estimate of the gullibility of the borrower, but rather according to the risk involved and the security offered.

As the services and facilities of companies such as Security Capital Corporation Limited become more widely known to the public, the competitive pressure brought to bear by it and similar institutions will drive the unscrupulous lenders and brokers out of the marketplace. By means of effective competition and fair rates the mortgage business will be cleaned up more certainly than can be hoped for through legislation that is complicated and difficult to administer.

THE CHAIRMAN: Thank you. Do you have anything you wish to add to that?

MR. RECHTSHAFFEN: Well, actually, I thought that I had incorporated the thoughts I'd like to present in the brief.

THE CHAIRMAN: Some of the members of the Committee may have a few questions. Would you

like to start off, Mr. Sedgwick?

MR. SEDGWICK: Would you prefer to sit down, sir?

MR. RECHTSHAFFEN: Thank you.

MR. SEDGWICK: Mr. Rechtshaffen, are you also a lawyer?

MR. RECHTSHAFFEN: Yes, I am.

MR. SEDGWICK: But you make the Security Capital Corporation your principle occupation, is that correct?

MR. RECHTSHAFFEN: Yes, that's correct.

MR. SEDGWICK: Yes. And was it a new Company in April of 1962, or is it a successor Company?

MR. RECHTSHAFFEN: No, it was a Company newly incorporated for this specific purpose to engage in the mortgage business.

MR. SEDGWICK: Have you raised your money from the public by the issue of share capital?

MR. RECHTSHAFFEN: Yes. Originally it was share capital and since then there have been two public issues of debentures and subordinated debentures.

MR. SEDGWICK: I see. The debentures, I suppose, carry a fixed yield. What is the yield?

MR. RECHTSHAFFEN: It's 6 3/4%.

MR. SEDGWICK: And your equity capital, do you pay any dividends on that?

MR. RECHTSHAFFEN: The equity capital was distributed in preferred shares and common shares and the preferred shares carry a fixed cumulative dividend at 6% per annum on which the first dividend was

paid in March, on March 30th of this year. No dividend has been paid on common shares as yet.

MR. SEDGWICK: I see. And I take it that, from what you have said, your Company handles only its own money -- you do not act as a break between private lender and borrower?

MR. RECHTSHAFFEN: No. The Company lends its own funds and does not engage in buying and selling or arranging of mortgages.

MR. SEDGWICK: On the second page of your brief you say that the Company provides loans for terms up to ten years and in almost every instance the stipulated payments fully amortize the loan by the end of its term. Do you have some mortgages which do not fully amortize themselves, that is, which have what we call here a balloon payment at the end?

MR. RECHTSHAFFEN: Yes, there are some that do have a balloon payment. Those would be basically mortgages which we have acquired. The source may be someone who has sold a home or property and has taken back a mortgage which they thought they could retain and found that they required cash rather than waiting for the payments. They would sell that mortgage to us and that mortgage would have payments stipulated in it that would not fully amortize it over the term.

MR. SEDGWICK: Do you have any policy as to renewal of those mortgages when they fall due? What do you do about the balance? Would you renew, as we are told the older first mortgage lenders will, or do you keep up the payments -- what is your policy?

MR. RECHTSHAFFEN: Well, we would be delighted to renew the mortgage as long as they paid their payments well because, of course, it's a mortgage we would acquire without further acquisition costs. The renewal would not be at the same rate as those mortgages generally are, they are at a rate of interest of, perhaps 6 or 7%.

MR. SEDGWICK: Yes, because they have probably included a bonus --

MR. RECHTSHAFFEN: Well, to us, we would have purchased such a mortgage at a discount from its face value so that the balance owing at the end of the term would have to be renewed at a rate of perhaps 12%.

MR. SEDGWICK: Yes. You wouldn't insist on another bonus?

MR. RECHTSHAFFEN: No, we wouldn't because the bulk of our mortgages are done without bonus on simple interest and the bonus is no advantage to the lender in that he effects the same yield one way or the other and to the borrower it perhaps is burdensome because if there is anything in his future that causes him to sell the house he has prepaid interest which he will not have the benefit of the use of.

MR. SEDGWICK: That, of course, is true. And in the cases -- you say you have some mortgages that include a bonus -- and I am looking at page 2 of your brief -- in case a borrower wants to prepay such a mortgage, do you charge against the bonus either paid or charged?

MR. RECHTSHAFFEN: We don't in every

instance, but it would depend on the amount. If it were a large bonus we would, if it were a small dollar amount bonus we wouldn't because the amount of discount at that point approaches our acquisition cost or the disturbance of receiving those funds earlier than we had expected and we have to get another loan to replace them. So I can't give a hard and fast rule for that. It's a matter of management decision actually in regard to that individual loan.

MR. SEDGWICK: Would it depend at least in part on the time when prepayment was offered?

MR. RECHTSHAFFEN: Oh, yes.

MR. SEDGWICK: How long the mortgage had run?

MR. RECHTSHAFFEN: It would depend absolutely on the time.

MR. SEDGWICK: You say that almost all your loans are made at a simple rate of interest without bonus -- I never know what almost means -- percentage-wise, what would be the percentage of loans that you make without a bonus?

MR. RECHTSHAFFEN: Well, better than 95% I would say. The reason I said almost, sir, is to have said anything else would leave out points where they aren't.

MR. SEDGWICK: Very well. Then, turning to the Interest Act -- I don't suppose there is much that this Committee could do except suggest -- I, at least am not competent to comment on your suggestion -- turning to page 6 -- this Committee is asked repeatedly

as to who the mortgage broker represents. May I take it from your brief that in your view you almost invariably represent the interest of the lender?

MR. RECHTSHAFFEN: Well, I think the mortgage broker represents himself. I think he has his first interests, his interests are his first interests and he is subject to the pressures the lender may bring to bear to accept a loan on certain terms. But we feel the broker is --although technically perhaps acting as an agent -- he is in business for himself and his interests are primary.

MR. SEDGWICK: Of course, these interests that he endeavours to satisfy are the lender's in almost every instance? Looking at your statement where you say the lender -- on page 7 --"the lender and the broker both tried to get as much as possible from each borrower, they wearing the armour of expert knowledge and having the weapons of considerable experience, and the borrower joining battle against them relatively nude of armour or weapons adequate for such a combat." It seems to me that explicitly what you are saying is that lender and broker gang up -- if I may use the phrase -- against the borrower?

MR. RECHTSHAFFEN: Well, I feel the reason for my phraseology is that there is two parts to each loan when it's a private loan arranged through a broker. One part is what the lender or mortgagee will receive on the contract and the other part is what the mortgage broker develops for himself. And I do feel that they are both working, each for their own ends. As

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an example, if you had a mortgage at -- an application for a mortgage at 12% -- and we will say that the fees were $300.00. The lender might ask for 13% and the broker might ask for $400.00 if he found that it were difficult. In other words, both are asking for more, each for his own purpose, but ultimately the borrower is subdued under both pressures. So that they can be acting each for his own interests, yet they both would seem to be lined up on the opposite side of the line to the borrower.

MR. SEDGWICK: Thank you. I don't expect you to boost your competition, but in paragraph 3 on page 7 -- are there many other Companies similar to Security Capital?

MR. RECHTSHAFFEN: Well, there are several Companies which I would consider to be doing a similar business and on a standardized rate -- they would include Coronation Credit, Canadian Acceptance Corporation, United Dominions, I believe Charter Credit in Quebec also does some business in Ontario, Industrial Acceptance Corporation, Niagara Loan Division is entering the field. There are a number of full line finance companies that are either entering, have entered or are entertaining an entry into the mortgage market on a straightforward basis.

MR. SEDGWICK: Their rates, I suppose, would be comparable to your own?

MR. RECHTSHAFFEN: I think that they would all range between 12 and 15%.

MR. SEDGWICK: Looking at the top of

page 8 of your brief, where you say, "Borrowers are invited to deal directly with the Company without the intervention of a broker or commission agent....". Do you ever recognize a broker or commission agent?

MR. RECHTSHAFFEN: Do we ever deal with them?

MR. SEDGWICK: Yes?

MR. RECHTSHAFFEN: Yes, we do.

MR. SEDGWICK: When you do deal with them do you pay them a brokerage fee or commission?

MR. RECHTSHAFFEN: No, we don't. We pay no finder's fee to agents for directing loans through our office.

MR. SEDGWICK: So that if a broker or commission agent brings you a loan he must look to the borrower for his fee, is that right?

MR. RECHTSHAFFEN: Yes, that's correct.

MR. SEDGWICK: And do you make a practice of deducting from the amount that you pay the borrower a brokerage fee where one is claimed?

MR. RECHTSHAFFEN: When we have a direction signed by the borrower authorizing payment to the broker, we will pay.

MR. SEDGWICK: In those cases what commission do you pay for the broker, percentagewise?

MR. RECHTSHAFFEN: Well, that would vary from transaction to transaction and broker to broker but I would give a general range that the broker would operate within 5 to 8% of the amount of the loan which he has submitted and has been accepted.

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MR. SEDGWICK: So that even though it would seem difficult to get a loan from your source, a mortgage broker might save as much as 8% commission as a finder's fee?

MR. RECHTSHAFFEN: Yes, that is something which exists because of the past history which I have outlined. It's something that we feel in time will be cured because the brokers presently are able to claim such fees and earn them, because of the ignorance of the public. The public is unaware that they can come directly for a loan, but they are becoming, or being made more aware through a certain amount of advertising and favourable publicity but those who are unaware that they can come directly, seek out a broker and the broker, in turn, may offer that loan to this Company. We cannot singlehandedly revolutionize the business and at this time must accept such loans until our own efforts produce direct loans in sufficient volume for the Company's purposes.

MR. SEDGWICK: That is, until the public learn that if they deal with yourself, or companies like yourself, the intervention of a broker is not necessary?

MR. RECHTSHAFFEN: Yes.

MR. SEDGWICK: So that the gullible member of the public who deals through a broker who, in turn, takes the loan to you, pays something -- shall we say $250.00 to $400.00 on a $5,000 loan -- which is, in a sense, lost money?

MR. RECHTSHAFFEN: Well, it's in a sense

lost in the same way as a real estate commission for selling a house is lost. I don't think it's fair to say that under the circumstances, since they know no better, they are acquiring a service for which they are paying, but I feel that the service is one they could themselves perform if they only knew.

MR. SEDGWICK: By going to your Company, as you say, just like they might go into a bank?

MR. RECHTSHAFFEN: Yes.

MR. SEDGWICK: Those are the only questions I have to ask.

THE CHAIRMAN: MR. Bukator?

MR. BUKATOR: Not for the moment.

THE CHAIRMAN: Mr. MacDonald?

MR. MacDONALD: Mr. Chairman, I was interested in your comment about prepayment privileges on the paying of three to six month's interest. Is this a general practice among companies like yours?

MR. RECHTSHAFFEN: Well, I can speak, of course, only with authority for my own Company. In the institutional loans made by trust companies and first mortgage companies such as life insurance companies, generally speaking mortgages are closed for a term of five years. That, of course, is so that, having gone to the trouble of inspecting a property and examining it, passing on the loan and putting it on the books, that the benefit of the earnings of that loan would be retained by the Company for a reasonable period. We have, of course, the same costs as they do and the same

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interests. We feel that by allowing the mortgage to be open at any time we in no way prevent the borrower paying it off or selling the property or dealing with it freely, but we feel that a dislocation cost of three months to six months' interest, which is agreed to before the mortgage loan is completed, is a fair compensation for the dislocation and yet allows freedom at any time to deal with their property.

MR. MacDONALD: I was interested in this for the very reason that you have now, in effect, spelled out. You are in a higher risk field in that you are willing to do this, where the institutions lending --the traditional lending sources have taken the approach of the closed mortgage. Is there, from your knowledge, is there any tendency for an open mortgage to be appearing in the institutional lending on first mortgages?

MR. RECHTSHAFFEN: Well, no, not that I am aware of other than under the National Housing Act loans, but in speaking of conventional loans I don't know of any tendency developing to allow open mortgages and I feel that one of the reasons -- if you wish to find the reason for the source for the discrepancy between our taking a higher risk and allowing it to be open, they are taking a lesser risk and insisting on it being closed -- I might say that they offer the money at a low enough price that they can insist on more things, perhaps, than we do and so they are able to offer a highly competitive rate and in that case are able to insist on terms. And the other thing is that they -- their demands are uniform. Their Association allows for

free communication among the various lenders, life insurance and trust companies, and their demands are generally quite uniform.

MR. MacDONALD: Mr. Chairman, the other area that I just wanted to touch on, if I can provoke our witness into further comment I'd like to. It's not so much a question. I'm very interested in this thesis about the marketplace in terms of second mortgages and what, as he put it in blunt terms, he thinks is, or may, ultimately, become an outmoded function, that of the broker. That he is, in effect, getting money for a service and not really providing that service or, to put it another way, your Company can provide it without that charge. Now, we have had what, to my mind, is rather intriguing testimony in regard to the efforts of the Brokerage Association to regularize the field. I mean we have had, from one end, people who -- without naming names -- I would feel were real operators, being suspicious of the Brokerage Association, and this I can understand. And the other end was, in my reaction, a very responsible, legitimate operator in the field and he was equally doubtful of the job that the Brokerage Association was doing. Now, after all the discussion we have had about the rather questionable role of the broker, who is he serving, we have come to the conclusion, some of us, that he was serving himself, and you have confirmed that. I am just wondering, Mr. Chairman, if we aren't in a transitional period in which the broker is performing a function at very high cost to the public, but that this -- now that we have reconciled ourselves as

I have to, being a conservative in this field I would say, to borrowing money. A few years ago 12 or 13% would have shocked me, but after working on this Committee for a while it looks like a fairly modest amount. Companies that would regularize that field and not have this excessive cost. I repeat, Mr. Chairman, I have no question, but if the witness would comment on this, I would appreciate it because I think this is breaking some new ground in our thinking.

MR. RECHTSHAFFEN: Well, you are wondering if the broker will ultimately be eliminated?

MR. MacDONALD: I think there is a growing evidence to suggest that he should be. Or that his costs are excessive. Now, the way he is operating in the jungle that he is operating in, these costs are necessary at the moment. But we are not interested so much in that as in getting the pro-rating of funds. I think our responsibility on the legislative level is that the provision of funds should be made available on the most efficient and least costly fashion to the consumer. Now there is growing evidence to suggest that for the broker's role and it isn't the least costly, it is a very expensive role.

MR. RECHTSHAFFEN: Well, to confirm that trend of thought, if I may be so bold as to make a prediction that mortgage brokers as an occupation, mortgage brokerage as an occupation will not exist five years from now. They can't possibly compete, they have nothing to sell. They have absolutely nothing to sell. The guidance that they purport to offer -- as I say their

interest is entirely self-centered in the transaction. They do not advise the best terms nor the best method. They advise, where possible, the most profitable for themselves. When they find an obstinate lender who insists on more, they never will struggle with the lender to have it reduced to a reasonable rate, but will work on the borrower. He's easier to work on, he has no experience. It's easier to convince him that that rate is fair than it is to induce the lender to give up some of the yield he is asking for, whether it is reasonable or unresonable. So that the other reason is this: The borrower appears before the broker once, the broker appears before the lender many times. So you can see that since he deals with the lender frequently and the borrower only once, he is far more inclined to satisfy the lender than he is to worry about whether the borrower is obtaining the best loan. Ordinarily a broker's function is as agent for his principal and, in law, any profits that he would make that aren't disclosed to his principal, would be recoverable. The law of principal and agent and broker and borrower situation just doesn't seem to exist. I feel that they don't direct themselves to any responsibility to the borrower nor, in most cases, do they have any opinion as to where these funds could be obtained. The average number of years of the registered brokers -- I don't know just the number of registered brokers, there must be 1,000 to 1,500 registered mortgage brokers -- the average number of years experience they have is generally not very long and, as

I say, since they have no money to offer, they simply do the work of looking around, which a prudent borrower could do for himself. He has to be fantastically lazy to be willing to pay several hundred dollars so that someone would go from lender to lender seeing whether his application will be accepted, instead of doing it for himself. So perhaps the corollary to what we were saying might be that between the operation of a true economic marketplace by the efforts of companies such as we have outlined, that I consider to be ethical, lending institutions well financed in the business and perhaps some effort directed towards education as far back as the junior years in High School, some effort towards teaching students at that point a little bit about common form business transactions such as borrowing on credit, whether it be on a home or on finance plans, the number of people that are today indebted and the total amount of consumer debt is such a grand sum and of such proportions that to neglect that aspect of their education while we teach them things about -- that have happened hundreds of years ago, although I don't deny the value of history, although in this case I think that something directed towards establishing knowledge sufficient for their living, their daily affairs, rather than worrying as much about what has happened hundreds of years ago to those who don't finish High School or don't go on to a higher level of education, would be more important. Ignorance is the chief cause of the abuses.

MR. MacDONALD: Because of the very

nature of the mortgage brokerage field and the fact that dealers are coming in and leaving with fair frequency, it's not surprising that these abuses, perhaps, have grown up. In your estimation, has the Mortgage Brokers Association sufficiently regularized and improved the field?

MR. RECHTSHAFFEN: I would suggest that the Mortgage Brokers Registration Act has rather than the Mortgage Brokers Association. I don't think that they command any real authority among them, most brokers.

MR. MacDONALD: Well, we've been told there are over 600 brokers and that just 150 or so are registered, so that in itself confirms your point. Only a small proportion of the mortgage brokers in the field have seen fit to join the Association.

MR. RECHTSHAFFEN: I don't think that the Association offers cogent enough reasons to join and we have the result of a small percentage of the total number of brokers joining. Because again the business that they purport to regulate or serve is one which is a helter-skelter business. The broker has to go from pillar to post looking for the money and the rates change, the people change with whom he deals because a private investor may be reasonably well off for -- let's say he has set aside a reasonable amount of money for mortgage investments -- if you take a substantial amount, say $50,000, well, that's only ten loans. As soon as he's made those ten loans he's through for five years. Well, you've got to find a new investor. So the conditions are ever changing like quicksilver and

these people are unable to establish any real pattern because they aren't dealing with the same people over and over. So that the Association, although it attempts to regulate or bring order to the business, it is, in fact, a chaotic business which I don't think anyone can bring order to.

MR. MacDONALD: In other words, it would be fair to conclude that in your view because of the nature of the business this Association, or this organization,or this field doesn't admit that self-regulation by a trade organization --

MR. RECHTSHAFFEN: I think not because most of the members do not have such a great investment in their future in that business. I think most now recognize that this business is one which is a dying field. They will be replaced, and at this point perhaps are turning to the view that they had best make as much as they can while the going is good. Perhaps that's a source of the abuses too.

THE CHAIRMAN: We have had the suggestion made that give him another 18 months and he can make his million and get out.

Questions, Mr. White?

MR. WHITE: On page 2, under Effective Yield, I see the prase, "....in special circumstances ....up to 1½% per month may be charged." Is that on a decreasing balance?

MR. RECHTSHAFFEN: Well, all our loans are on the declining balance. The special circumstances that would call for a higher rate frequently are interim

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financing of building projects where we have to regularly inspect the progress, we have to, or we do like to advance the monies to the tradespeople on approved invoices to see that the construction as it progresses is, in fact, being paid for. And all of this entails more servicing and more time, plus, of course, the risk always exists that the builder may or may not complete the project. He may fail, the Company may go bankrupt or he may have made poor estimates of costs and so that we might, in fact, be obliged to come in and finish the project. So on that type of loan customarily we have a higher rate than on an existing property.

MR. WHITE: That's calculated monthly on a declining balance?

MR. RECHTSHAFFEN: All of our loans are on the declining balance whether it's monthly or quarterly, it's always on the declining balance.

MR. WHITE: Now then, could you tell us what proportion of your first mortgages might be at that 18%?

MR. RECHTSHAFFEN: Well, I might preface my remarks with the comment that, of course, a first mortgage or a second mortgage deals only with the order of priority of registration at the Registry Office, therefore, it's conceivable to have a first mortgage of 80% of the value. So very frequently interim loans of that kind will be a first mortgage. I would say, to answer your question specifically, perhaps not more than 3% of the loans are at that rate and they would be first

mortgages.

MR. WHITE: And what proportion of your second mortgages do you think might be at 18%?

MR. RECHTSHAFFEN: Well, our loans are distributed roughly between first and second, so I would imagine approximately the same amount.

MR. WHITE: And what proportion do you think might be 15% or more?

MR. RECHTSHAFFEN: Well, I can give you a simple answer, I think. Our average yield throughout the entire portfolio is about 13.7%.

MR. WHITE: 13.7%. Leaving aside your Company for a moment and dealing only with this discretionary policy -- From my own business experience I am inclined to think that if a company has a loss stock of about a year than was previously experienced, there would be quite a lot of pressure on the executives or the mortgage supervisors to get the rate up. I know in one or two large, well-known health insurance companies if their losses are heavy they just don't take their claims unless they are sued. In this mortgage field I suggest that the President of the Company where this discretionary policy exists will be under very heavy pressure from the Directors if the Company incurred losses through defaults on mortgages and I think that he would try to get the average yield up a little bit to decrease and improve his position. I just don't think that -- you know, that's the way the world works. I am prepared to believe the second last paragraph of your brief, but I know also that all of the mortgage

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brokers who come before us assure us that the very heavy interest charges -- which you may know from reading the newspapers run as high as 87% -- they always say that this has nothing to do with the lack of sophistication of the borrower but rather depends only on the risk of the loan. I would very much like to see, ~~as~~/~~a~~/this policy, Mr. Chairman, which has a specific and straight~~forward~~/12 percent and this doesn't vary, in any circumstance, as I understand it. That's what we were fiformed.

MR. RECHTSHAFFEN: I was only going to interject that CAC's entire experience in this field is about one year. Now, to say that their rate has never varied from 12% in their first year -- they don't know yet whether they have made of lost money, so that the comment which you are making, if you hold CAC up as the touchstone or the benchmark, you may, in fact, be working on one which is still subject to alternation from the first year's results. So I can't say whether they will or they won't change their rate, but I would say this, that if they had heavy operating expenses and they found, not so much through losses, which I don't think with their experience they will incur, but perhaps through heavy operating costs, they will find that the rate of profitability is not acceptable or perhaps even a loss on the operation, then your suggestions perhaps rates might climb. But if, for instance, the rates of formation, or at least the costs of formation on a larger portfolio, or our costs on a small portfolio with a small company were sufficient to allow us to operate at a porift at those rates, then CAC couldn't raise those

rates if we are providing the effective competition of which I spoke. In the same way, there are various corporations engaged in every field. Some experience a bad year but as long as all companies in the field aren't experiencing the same conditions of loss, then the one that has experienced a bad year will simply have to do something about their own operating policies, but rather they would not likely be able to raise their rate in the face of effective competition. This is what my hope is for the cleaning up of this business, strong companies able to compete effectively, who can keep the rate down to the best price that the best operator can operate at. So I would suggest that in a clear, untrampled marketplace the best operator will establish the going rate and all others will have to meet that rate as best they possibly can.

MR. WHITE: On that discretionary policy, likely an ambitious mortgage supervisor in your office, or if you get into a multi-branch operation, might lead him to seek higher yields from less sophisticated borrowers. I mean that's almost a certainty.

MR. RECHTSHAFFEN: Well, I would say that the number of less sophisticated or unsophisticated borrowers should continue to decline as the various companies send their literature out or advertise or make themselves known. It's something where we are really starting from mile zero to clean up a very bad situation and it can't, of course, occur all in one short year or two. The trend, I think, will be in the right

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direction and the rate that we are speaking of, assumong an ambitious programme by a branch manager or someone capable of doing it, could not still become an abusive rate;at the most it could be another 1% or 2%. I do feel this, that one of the comments I might make, or an observation I might make at this time is that although the rate we are speaking of as a uniform rate is 12%, or within the range of 12 to 15%, I might say that it is a form of modern day utopia in that the borrower is not as burdened as it would first appear by that rate because that is the yield to a Company receiving its payments monthly, capable of instantly reinvesting those small monthly payments. Only by that capability are they able to garner a yield of 12 to 15%, to the borrower, although mathematically that is the cost of the money for the yield to the Company lending. The borrower, nevertheless, pays $6.00 on $100.00 for one year. So that he has no capability of reinvesting $30.00. He has no ability to earn anything on it. So whether he retained it or whether he gave it back is all the same to him. So that I am suggesting that it is a modern day utopia. It doesn't really cost him as much as it appears, but the ability of the Company to reinvest those monthly installments is what makes the yield that high.

THE CHAIRMAN: Do you have any questions, Mr. Belanger?

MR. BELANGER: Yes, I have, Mr. Chairman. I was quite interested in seeing that you mentioned in the very first part of your brief, under

History, ..."for the purpose of making mortgage loans available on a rational basis at fair terms in that area of the mortgage market not ordinarily served by existing financial institutions such as trust companies and life insurance companies". I would like to know -- suppose I have a first mortgage of -- you say your average loans are $4,600 -- I'd like you to tell me how I -- what you would do to entice me to take my loan from Security Capital Corporation rather than from this trust company that has been in business for a number of years? What would you have to offer me? That's what I'd like to find out? What have you to offer me compared to other trust companies that would entice me to go into your corporation?

MR. RECHTSHAFFEN: Suppose you have a house, 30 years old, in a good neighbourhood, but having a frontage of 25 feet. Now this house is sound and valuable, it's not run down, but it has a frontage of 25 feet because 30 years ago it was a common frontage. Today we have larger lots 40, 50 and 60 feet developed because of the suburban areas which were being subdivided. But at that time 25 feet was common, so this is not an unusual house in any way.

MR. BELANGER: You don't see very many 25 foot lots.

MR. RECHTSHAFFEN: In the City of Toronto? Twenty-five feet would be a reasonably good lot in the City. There are many that were built on 17, 18, 20 feet, but I'm speaking of a reasonably good house on a 25 foot lot. Now, at one time the trust companies were not

accepting risks with frontage under 30 feet. Now your house is perfectly good, a first-class house as far as we are concerned. But you have just gone beneath the threshhold of lending property, so your only alternative at that point is to get a loan from someone other than a trust company. I'm not suggesting that you couldn't get a better rate than 12% in that case. A private lender might be willing to accept that at a rate comparable to the trust company, but then you would have to know where to find that lender and this is why mortgage brokers have existed. They knew where to find the lender, you might be obliged to pay more than you should have, but those were the rules of the trust companies and life companies and they held sway over the market. They still do.

MR. BELANGER: That's an extreme case?

MR. RECHTSHAFFEN: No, that would be a first-class risk, as far as we are concerned. It would just -- their policy varies from time to time according to the pressure of money that is flowing in or money that is either tight or more plentiful. Rates go up when money is tight and well, they say nothing under 30 feet. When money becomes more plentiful and money rates in the market go down, they then say they will accept 25 feet. But if you came to them to borrow when the rule was 30 feet, you are simply excluded from the ability to obtain a loan from them. So there is nothing wrong with the risk in that case, but it's a matter of policy and lack of funds, sources of funds. This is why I suggest the more entries into this field

that are well financed and capable of providing a constant flow of money into the market will cure the defects of the market. There are a considerable number of illogical and inconsistent criteria in the market and they will be, from time to time, reviewed because of competitive pressures.

MR. SEDGWICK: Mr. Rechtshaffen, is not another reason that your company and companies like yours will lend up to 80% whereas the old-line trust companies have a limit of two-thirds?

MR. RECHTSHAFFEN: Yes, that's quite correct, sir. The field which we would mainly occupy would not be in competition with them, other than, as I say, when their particular policy excludes what we consider a desirable property. But basically our field would be the balance between the 80% and the existing trust company or life company.

MR. SEDGWICK: Which are restricted by legislation?

MR. RECHTSHAFFEN: Yes.

THE CHAIRMAN: Mr. Hoffman, do you have any questions? Mr. Noden?

MR. NODEN: What percentage of your loans, what percentage are second mortgage loans?

MR. RECHTSHAFFEN: Of our total?

MR. NODEN: Yes.

MR. RECHTSHAFFEN: 53% were first mortgage loans and 47% second mortgage loans.

MR. NODEN: Supposing you have clients that you take a first mortgage from at about 60% of the

[illegible]

property's fair market value and in time he required more money and he comes back and wants to boost it up to 80%. Would you include that in the first mortgage?

MR. RECHTSHAFFEN: We would be willing to. Whatever suited them we would do under those circumstances where we held the first. Am I understanding the example correctly? We would have made them a loan which would be a first mortgage up to about 60% of the value. They then ask for an increase to 80%? Well, in that case we would do whichever they wished. Either make it a second mortgage or --

MR. NODEN: At the same rate?

MR. RECHTSHAFFEN: Yes. Our rates are the same whether it's a first or a second.

MR. NODEN: Thank you.

THE CHAIRMAN: Mr. Reilly?

MR. REILLY: Yes. Mr. Chairman, you were telling us about the financial structure of your Company, Mr. Rechtshaffen, issuance of debentures at 6 3/4%, and in your equity capital you have preferred cumulative on which you are paying what?

MR. RECHTSHAFFEN: 6%.

MR. REILLY: 6%. Do you know the source of the funds for the CAC?

MR. RECHTSHAFFEN: Do I know their source of funds?

MR. REILLY: Yes.

MR. RECHTSHAFFEN: Well, I'll give you my brief knowledge of it, if that's what you wish.

MR. REILLY: Well, I was wondering if

it's true that they get their funds, American capital, at 3½%. This might be one reason why they could charge 12.

MR. RECHTSHAFFEN: Well, the credit of CAC certainly is better than the credit of Security Capital Corporation. I would readily admit that. Few would have credit like CAC. I might say that banks, of course, have money costs that are even less than CAC so that it's our desire to work our credit costs down but when you look at it this way there is a minimum rate which you really must charge in order to earn a profit for shareholders in order to pay interest to debenture holders. If we must pay 6 3/4% to them, which I don't think is an unfair return to the debenture holder, and we have to pay 52% corporation taxes and our administration costs, we are left with very little. In fact, on millions of dollars worth of loans you would be doing quite well to earn something like 2% of your outstanding receivables ultimately, to pay the shareholders.

MR. REILLY: I'm not finding fault with the rate, Mr. Rechtshaffen. What I am pointing out is it is possible that CAC is borrowing money at less cost.

MR. RECHTSHAFFEN: Oh, they are, than we are, yes, definitely. They also would have a considerably higher operating cost where we might make up that difference, though.

MR. REILLY: You were telling the Committee here that you deal with an equity where a person would have to have 20% equity in it. In other

words, you take it up to 80%?

MR. RECHTSHAFFEN: Yes.

MR. REILLY: That is, as far as a mortgage is concerned. Well, you are in competition with the mortgage broker, are you not?

MR. RECHTSHAFFEN: Yes.

MR. REILLY: Well, in competition with the mortgage broker then would you take it up to 20% equity -- I have a home worth $15,000 and I have $1,500 invested in it and I go to you and I say, "I have $1,500 equity," you can do nothing for me? I have only a 10% equity in my home.

MR. RECHTSHAFFEN: Yes.

MR. REILLY: So, this is a field for a mortgage broker then. It's the only place where he can get the money if you won't lend money to him, is that right?

MR. RECHTSHAFFEN: Well, I would say that that's correct in that statement. I would also say that under those circumstances few are the mortgage broker who could provide him a loan anyway, because they must still obtain the funds from a private lender and unless of course he is able to locate either a private lender who is willing to take an inordinate risk or one perhaps with not all that much experience, only then could that loan be arranged. The equity is insufficient on a force sale your costs of recovering possession, paying a real estate commission to sell it, generally some damage or repairs that have to be done would absorb or wipe out that $1,500 equity, I think,

under ordinary circumstances.

MR. REILLY: I'm not suggesting, Mr. Rechtshaffen, that they should or should not have the loan. All I am saying is that there are some people who don't have 20% equity and if you don't make a loan to them they must go to somebody who will make a loan to them. Is this correct?

MR. RECHTSHAFFEN: Well, I would say so, yes.

MR. REILLY: If they want to save a house, under those circumstances, they think they are saving it and they can't get money from you because you won't lend money to them unless they have a 20% equity?

MR. RECHTSHAFFEN: Yes.

MR. REILLY: Approximately how many people would you have to turn down on the basis of the policy that you have now where you have -- lend up to 20% of equity?

MR. RECHTSHAFFEN: Oh, we turn down a great number of people. There are, of course, always people who want to borrow to buy anything that strikes their fancy at the moment. They will be virtually without equity in the house, but if they see something that strikes their fancy, if they can get the credit they will take it.

MR. REILLY: Do you turn down one out of five or two out of five? Or three out of five applications?

MR. RECHTSHAFFEN: Well, we will turn

them down, of course, for two reasons, where we would turn credit down. One is the past performance with credit obligations of the person, if they have a poor credit record or an insufficient equity. If either condition exists we would turn it down. So we would turn down perhaps two out of five.

MR. REILLY: So there might be 40% of the people who have to get a loan because they don't measure up to your standards?

MR. RECHTSHAFFEN: Yes. They would want a loan and not be acceptable.

MR. REILLY: What percentage of your business would be done with the mortgage broker where you would have to pay him a fee between 5 and 8%?

MR. RECHTSHAFFEN: Well, we -- I think perhaps the statement is where he would charge a fee, we -- I think I said previously 00 we don't pay a fee to them. I would say at this moment a large percentage, perhaps as high as 65% of our business would be done on applications submitted by brokers. Not all brokers charge the rates I stated, but I would say as an average in the Province, that would be the prevailing rate. At this moment, as I say, we are in a condition of flux in this mortgage business. We hope that the continued operations of these various companies will eliminate that necessity and that percentage of applications from mortgage brokers will be constantly reduced as we get more direct loans.

MR. REILLY: I'd be interested in seeing an advertisement of the Security Capital Corporation in

comparison with some other advertisments that I have seen. Do you have any newspaper advertisements?

MR. RECHTSHAFFEN: No, I dont, but if you have the yellow pages of the phone book you will see one in there.

MR. REILLY: I was just interested in seeing how it compares with the other. Thank you very much, Mr. Chairman.

THE CHAIRMAN: Do you have any questions, Mr. Letherby?

MR. LETHERBY: No, I have no questions, Mr. Chairman, more than to say I was very impressed with you, sir, and with your brief and equally as much so with the way you handled the question period. I was just thinking, though, that the mortgage brokers aren't going to like you when they find out that in another five years they will be out of business and back gathering rags .....

MR. RECHTSHAFFEN: Well, I think they are probably aware of it now. I think that most who are able to see things realistically are aware that it is a dying occupation.

MR. REILLY: Who will pick up the other 20% then? If the mortgage broker doesn't do it?

MR. BELANGER: (Inaudible)

MR. RECHTSHAFFEN: Well, it's something like saying what will we do with the people who become ill? There is always going to be a certain amount of illness, a certain amount of unhappiness and those people are unfortunately very often responsible for their own

condition and there is almost no cure for it. They will continue to borrow without reference to whether they should or shouldn't. They simply do it if someone will let them.

THE CHAIRMAN: Mr. Rechtshaffen, about how many loans would your Company have made so far?

MR. RECHTSHAFFEN: I would say at this moment we have about 450 loans in the year -- we actually commenced operations in the middle of June last year and at this point we have approximately 450 loans.

THE CHAIRMAN: And do some of your clients -- say if they have been elsewhere to raise the money before they come to you?

MR. RECHTSHAFFEN: Sometimes they do. They are generally not very candid at a time like that.

THE CHAIRMAN: But you feel they might have tried other markets before they approach your Company?

MR. RECHTSHAFFEN: We would be able, probably, to gather that.

THE CHAIRMAN: Don't they have to disclose that? Don't you ask them that?

MR. RECHTSHAFFEN: You mean whether they have applied elsewhere for this particular loan?

THE CHAIRMAN: Yes.

MR. RECHTSHAFFEN: Well, we don't ask it because I think we would receive, at best, a circuitous answer when we did ask, because they feel that being turned down or not getting the loan someplace else will instantly disqualify them here. So asking it you

are likely to receive a more or less worthless response.

THE CHAIRMAN: Mr. Irwin?

MR. IRWIN: Mr. Rechtshaffen, some of these points that we have touched on -- I'll try not to belabour it -- but getting back to page 2, I'd like to ask about the mechanics of actually calculating the rates, effective rates, 12 to 15%, $1\frac{1}{2}\%$ per month, and so on. Do most of your mortgages require an amortization of monthly payments or quarterly payments which would include principal and interest?

MR. RECHTSHAFFEN: Yes.

MR. IRWIN: With respect to these loans, you would have a schedule prepared to allocate the amount of principal and interest?

MR. RECHTSHAFFEN: Yes.

MR. IRWIN: At the end of every month there is a true balance of principal shown on the account?

MR. RECHTSHAFFEN: Yes.

MR. IRWIN: Now if you are stating to the borrower that you are going to charge him 12% per annum, at the end of every month 1% is calculated on the outstanding principal?

MR. RECHTSHAFFEN: Yes.

MR. IRWIN: And in the case of $1\frac{1}{2}\%$ it would be $1\frac{1}{2}\%$ and in the case of 15% it would be $1\frac{1}{4}\%$ -- so there is no compounding -- that is what I am trying to get at?

MR. RECHTSHAFFEN: Well, the method that we employ in keeping accounts is to have these loans precalculated for us and preposted to cashier cards by

the Financial Publishing Company in Boston. They do it on an electronic computer with, I feel, complete accuracy. So we have a monthly balance, we also have a division or distribution of the payments as to what amount is principal and what amount is interest for each month and we also offer an identical card to the borrower. I might make this comment, which is a sad one: We offer a duplicate of the distribution of the payments of principal and interest and the monthly declining balance to the borrower for the life of the loan,at a cost of $1.00, what it costs us, and they rarely ask for one.

MR. IRWIN: Do you pay a schedule fee provided by the Financial Publishing Company every year or check to see if you are quoting 12%, if the next month (Section missed in changing tapes)

MR. RECHTSHAFFEN: And it is the reason for my comments on Section 6 of the Interest Act in the brief. The Financial Publishing Company does most of the mortgage tables and amortization schedules for people in Canada, I believe, and the calculation that they would make is by actuarial formula and, I think that because of the requirements of Section 6 of the Interest Act, that you calculate interest annually or semi-annually not in advance, that it doesn't come to 1% per month. The first month it comes to something a trifle under that. How they arrive at that is beyond me, and that's why I say that calculating, if you can spend a good deal of time doing it, they go to the -- if it's a semi-annual payment they take 1 plus the 1/6th root plus half the rate and arrive at some magical formula which I have

yet to comprehend.

MR. IRWIN: Well, the essence of it is -- that's why I'm asking the question -- is that in order to arrive at an effective annual rate of 12% you calculate it monthly, you would be charging something less than 1% per month in a calculation because of the compounding factor.

MR. RECHTSHAFFEN: By their method, yes. The first months interest on a $3,000.00 loan at 12% isn't quite $30.00.

MR. IRWIN: : Right. So, this is what I want to get at. If you were charging, in fact, 1% per month by your own calculation you would be achieving something more than 12%, slightly more than 12% per annum, but they are making allowance for this and, in effect, reducing the 1% to .99 or something like that.

MR. RECHTSHAFFEN: Well, I feel that -- and again I say I am not skilled or trained in mathe - matics to the degree necessary to contest their method -- but I find it inconceivable that if interest is 12% per annum on a $3,000 loan, at the end of the first month for the interest to be less than $30.00. I find it quite impossible because it doesn't improve as it goes along. It's always something below the monthly charge on the outstanding balance. How that results in 12% I have yet to understand.

MR. IRWIN: Well, it's because of compounding factors involved, that's the reason. In other words, to get a 12% downgrade you would be charging on a monthly compound rate something less. I like your

suggestions. The first one you made I think is very pertinent to this line of thinking. As we have suggested, the Interest Act, although granted it isn't perfect, it should provide that the interest be calculated at the same time for the same period as the payment schedule requires. I think that is important, the knowledge of the borrower as to what the real rate of interest he is paying is. I gather from your question,when you say 15 and $1\frac{1}{2}\%$ per month, that is, in fact, what you are effectively charging?

MR. RECHTSHAFFEN: Yes.

MR. IRWIN: Have you, on page 5, the same line of questioning -- we have been talking about interest rates here in the Committee -- we find that the same people having prepared flashes before them will come up with slightly different rates per annum and there is a good reason for this. It depends on whether you are developing a table that is compounded quarterly or semi-annually or monthly, or what have you, and with the same set of facts you may come up with slightly different annual results. Have you, though, any suggestions to offer on developing a simple formula along the lines of your second paragraph on page 5? Have you gone into this among yourselves? Developing -- or have actuaries or accountants develop a simple formula of your own? Being able to state a certain rate per cent per annum?

MR. RECHTSHAFFEN: My own feeling stems from my thought that the Section was passed as a safeguard or as a shield to mortgagors, preventing the

charging of interest in advance or bulksome interest charges which they wouldn't understand and be unable to calculate. But I feel that the Section has not served that purpose in that they have complicated the wording by insisting that it be calculated half-yearly or yearly. Now, perhaps -- and I did not go into the History as to when the Section was passed -- but in the past it was customary in mortgage loans most generally to have them payable on quarterly or semi-annual or even annual installments. Now with the popularity of the National Housing Act loans and the implimentation of monthly payments of --blended monthly payments -- of principal and interest as a general method of repayment, I think that the Section is outdated. It should more closely parallel the manner in which loans are now repaid so that if this were calculated monthly on a monthly mortgage, which is what I am suggesting that it be calculated at the same intervals as the payments are made, then a borrower could readily calculate what his interest cost is. I feel they are being abused here because many a mortgagee can't calculate it either. So he takes six months interest on the balance and then he takes six months interest again on the new balance. He constantly takes six months interest without reference to the fact that the principal is being reduced each of those six months. So I feel that it's a Section that serves neither party and one that, with a small amendment would be clarified and would serve a useful purpose and enable both parties to the transaction readily to calculate the interest in a simple way. I think it is

outdated and perhaps corresponds more closely to a period of time when mortgages were calculated otherwise.

MR. IRWIN: May I make a further suggestion along that line, because this is certainly parallel to what I've been thinking. Supposing you were to require that all mortgages, however payable, should be stated as though they were payable on a monthly basis. Then it would be possible to state what the monthly rate on the declining balance would be. Then you could easily convert that to a simple annual interest rate because there would be no compound factor at all. Then you would have something that was comparable from lending institution to lending institution.

MR. RECHTSHAFFEN: Yes. The requirement that the mortgage state the annual rate of interest at the present time -- I've found, or at least my own observation is that it generally contains the true rate, other than where a bonus exists. The calculation, as long as the borrower were able to calculate it himself, knowing the nominal rate or the actual rate that applies, the nominal rate would be the actual rate, providing the intervals of calculation were the same as the intervals of payment. So the borrower could then satisfy himself even if he has never had any more than simple arithmetic training.

MR. IRWIN: In other words, if there was a monthly rate quoted multiplied by 12 you would get the annual rate, if those are the scheduled payments? If quarterly payments are required the quarterly rate would be stated multiplied by four and so on?

MR. RECHTSHAFFEN: Well, what I was thinking, that could serve the purpose or perhaps when you say that the rate of interest on this mortgage is -- we'll say 12%, providing that it was, if it were a monthly payment that you were calculating every month -- a person could take 1% a month on the declining balance. In each case they would be dealing with a declining balance every interval. This leads to confusion because the balance is not arrived at until the sixth month whereas you make payments each month, some portion of which is to be applied on account of the reduction of principal. It needs only the most highly trained people in a position to calculate the interest and certainly not the average borrower.

MR. IRWIN: I think, Mr. Chairman, this is a very valuable suggestion to make, this is something that I have been pondering about as to how to prevent it because when one person says 12% another person says 12%, it depends entirely upon the methods of calculating, quarterly, annually or monthly and so on. You may get quite a different rate. Trying to compare one witness' operation to another, I find it difficult to readily accept it when he says 12% because it sometimes works somewhat different. Another area of inquiry -- I don't want to belabour this, but you certainly have advanced the lines of thought for developing some kind of exchange of information on borrowers and lenders and the creation of, call it a Mortgage Exchange idea. How this could take place I don't know. What would be your comment on the value of either a governmental or a

privately sponsored information bureau, let's say? The rate on second mortgages this week is x%, just like (   ) which exists in London, England (rest inaudible)

MR. RECHTSHAFFEN: Well, a money market as such, in order to operate, of course depends, I think, on the acceptance by all persons of a standard unit. One is ready to accept on its face a government bond or the debt obligations of recognized companies, so the only forms of paper -- let's say-- that trade with any real activity in the money market. What you deal with when you deal in loans up to 80% is risks that represent something like a financial crazy quilt. It's very difficult to apply any normal procedure to this type of loan and so a rate, although the companies engaged in it will offer a rate as I suggested, probably bearing between 12 and 15% -- it's so individualistic in that one must examine the property being offered as collateral and the past history of the borrower, that any effective money market would be just, I think, too difficult to institute. What I perhaps took as the main trend or point here -- I said an economic marketplace -- I meant perhaps more of the free flow of funds as it would in a theoretical marketplace, and that competitive force or that competition between existing companies would create such a marketplace even though no place or body, in fact, governed or ran one. The responsibility will be with all the companies engaged in the business to establish a competition with each other, a fair rate, and then they would also assume the responsibility of examining each individual borrower's

application. There have been, in the past, attempts to establish a mortgage exchange. One of the key problems is these borrowers, as the expression in the business might be, they come in for the money today but they needed it yesterday. When you say, "When do you need the money, sir?", he says, "I needed it last week". He is about to be, you know, pressured one place or another. Time is one of the ingrediants there which doesn't allow it. The lack of uniformity in the collateral offered and the individual risks don't allow it. The fact that you can have a secondary mortgage market in National Housing Act loans, which is only a rather recent development, is because of the governmental guarantee. And also the fact that these loans are only serviced by approved lenders under the NHA, so that there is a certain number of companies that are approved lender, they are the only ones that can administer the loans and because there is a governmental guarantee, the money market people are willing to bid for them. But I feel that in the second mortgage business it wouldn't be possible other than, as I say, through the free interplay of competitive forces.

MR. IRWIN: Just one other suggestion along this line. The Committee at least will search for means of bringing a little better order, a little better information, a little better education of the public. Would it be possible to grade mortgage situations, like Grade A, within limits, I grant you, but for instance, you are dealing in mortgages with a 20% equity and presumably a satisfactory marketable property, even though

it has only a 20 foot frontage. Would it not be possible to say, among mortgage lenders generally, to agree upon a method of grading. Let's say an absolutely prime, very, very, satisfactory risk you might index at 100% and then you go down the line until you get down to the marginal case at an index of 25%. Could you not then by some kind of association or information body say that second mortgages bearing an index of .25 are now quoted at 18% per annum. Could this add something to order? An exchange of information?

MR. RECHTSHAFFEN: It would be a useful thing if it could be done, I think, but I think that the problems that I've suggested against perhaps an exchange are basically those same problems. That is, ranking the relative superiority of various credits. And it's a most difficult thing to do and generally the only place that it can be done is right in the field, so to speak, the manager is interviewing or making the loan decision does so in a way which he has learned from experience. There are no hard and fast rules. I don't know whether that kind of ranking can exist. The only thing I can say is that there is an unreal jump from 7 to 12%. If you don't qualify at, say, 6 3/4 or 7, which is the conventional mortgage rate, you instantly rise to 12, which is illogical. Money markets or risks shouldn't be in existence which contain such a void or vacuum between those two given rates. Surely one doesn't get a jump from a 7% to a 12% risk because you've crossed a certain line at 66 2/3%, because not all loans are made at 66 2/3%. That is, in fact, the maximum

all. And the lack of corporate organizations capable of putting money into the market, which means, in fact, are capable of borrowing money at reasonable rates, has created this entire problem and as soon as we eliminate the impediments towards companies entering the field, surely they will enter the field and all the abuses will disappear. Only until recently were there any mortgage companies or trust companies incorporated in the Province. For many years they were not and only recently have they been incorporated. Well, they will make their presence felt, they will enter the 8% field, 8½, those are the areas which need to be occupied and money needs to be made available in those areas. But I think that there has been a limited view and narrow view and the result is that instead of having the money to serve the market that didn't exist from legitimate sources, so we had these fly-by-night sources which I compared to the Prohibition era. People will still want something and if you pass a law saying that it can't be done, it doesn't prevent them wanting it. And someone will supply it. This is what I suggest is the root or the core of this problem. That one has to have a situation in which companies will be encouraged to enter the field so that they can compete on a legitimate basis and it will eliminate all the abuses in credit, because most companies don't want bad risks nor high rates. All they want is a reasonable rate to people who can afford the loan so that they don't have excessive losses and can make a normal profit.

MR. MacDONALD: Mr. Rechtshaffen, in

your general policy what justification is there for an interest rate that is as high on first mortgages as it is on seconds?

MR. RECHTSHAFFEN: Well, because -- the justification is we feel that 12% is required as a minimum rate for us to make a reasonable profit, having regard to the cost of money, taxes and operating costs of the company. So that when one presents collateral and says, "I have no other mortgage on my property. I want a loan." We make the loan and in that case it turns out to be a first mortgage. If they say they have a property of a given value, we owe so much on a first mortgage, we require a loan. If we accept that risk it becomes a second mortgage. Basically it's no difference to us if they said, "We will go out and get a first mortgage for part of this money at one rate and you supply a second mortgage at your rate", we would, of course, be happy to do that. But most frequently, when we have a first mortgage at the rate of 12% it's because no one will lend them money at a lesser rate.

MR. MacDONALD: In other words they are poor risks?

MR. RECHTSHAFFEN: No, we don't lend to poor risks, in our opinion, we don't lend to poor risks. No loan company consciously lends to poor risks.

MR. MacDONALD: Well, if he isn't a poor risk and he is forced to come to you -- it would seem to me there is some serious lack of funds for first mortgages?

MR. RECHTSHAFFEN: That's what I am suggesting. There are many communities, there are many areas in communities and there are many fine people living in working class homes that, if you want to measure by the standards that you might find in a slick magazine, Better Homes & Gardens, or something like that, they certainly would never be an entry , but to them it's their home, they are raising a family there, those people are as honourable in their intentions as anyone else and the fact that they don't have a fancy home shouldn't disqualify them from getting money at a reasonable rate. There is no market serving them at this moment other than companies such as ours. And, unfortunately, we are unable to borrow for less than the costs which we think are quite reasonable, they are raised in the public money market, so we are obliged to charge 12%. We would be delighted to charge less if we could borrow for less. It's really quite that simple. If there were sources of funds made available to companies such as our own at a lesser rate we could, of course, at once reduce the lending rate.

MR. BELANGER: (Question inaudible)

MR. RECHTSHAFFEN: Well, I would say that that is the essence of what I am suggesting. If we examine it in this way, that those who finish High School and perhaps go on to a higher form of education may, through the very education they have obtained, enjoy a higher income and may not be or become customers of companies such as ours. Those who finish High School have an advantage over those who don't. The ones who are

basically subject to the injury of bad credit practices are those who don't finish school or don't have that much education. So something like that has to be instituted at a relatively early stage of their education or they are out of school and faced with the problems of life and never have seen a contract of any kind. These people -- and this is reported countless times -- sign --

MR. BELANGER: (Question inaudible)

MR. RECHTSHAFFEN: Well, they have no ability to weigh things because they don't either understand well what they are doing or they have received no education and are unwilling to accept the challenge of examining it. They don't know what a chattel mortgage is nor what a real estate mortgage is nor what a conditional sales contract is. They don't know their rights and obligations under these various contracts. They don't know whether you can or you can't garnishee or what you can or can't do to them. They are not even given a rudimentary understanding of commercial law as they are very likely to encounter it. One of the first things a young fellow will do when he leaves school is to buy a car, one of the first things that he will do. And he will get stuck the very first time because he has no experience in it, he has never been trained for it, so that -- I'm trying to be realistic.

MR. BELANGER: I'm just going to ask you to put yourself back in your High School days and whether that would have penetrated at that time if a

[illegible]

teacher did bring that to your attention? Do you think it would have?

THE CHAIRMAN: It depends on the quality of the teacher. (laughter)

MR. RECHTSHAFFEN: Yes, I think --

MR. BELANGER: He's got something there, you see, because you had the experience after you left school.

MR. LETHERBY: Mr. Belanger is a school teacher. (laughter)

MR. BELANGER: And I am just wondering -- I realize what you said a little while ago that -- history is history, but at the same time you must remember that it is through history we acquired the world we have today. We just can't forget that. I am just wondering whether it would bear results, would take an effect?

MR. LETHERBY: I think it will. In any Grade 9 a boy or girl should comprehend that. I think it's more important to teach that than -- (rest of sentence inaudible)

THE CHAIRMAN: Mr. Noden, I believe, has a question.

MR. NODEN: I would like to address a question to Mr. Sedgwick. If a mortgage has a stated rate of interest of, say, 6% per annum and it spells out twelve equal payments or quarterly or semi, does not that mean that you only pay that 6% on the balance?

MR. SEDGWICK: Oh, yes.

MR. NODEN: From month to month, or quarter to quarter?

MR. SEDGWICK: Quarter to quarter or half-yearly or yearly as it stipulates.

MR. NODEN: Well then, why this controversy over this that they should change that?

MR. SEDGWICK: Well, because a great many mortgages today -- this gentleman knows much better than I do -- provide not for a payment of interest as such but they provide for a blended payment of principal and interest and that blended payment remains constant over the term of the mortgage. That is, you pay $150.00 a month, shall we say, or $100.00 -- that's an easy figure. The first month it will consist largely of principal and there will be not much -- largely interest, I mean, and there will be not much principal. But as you keep on paying you pay more principal and therefore, the amount which is applied against principal increases and the amount which is applied against interest decreases but the amount you pay monthly is the same.

MR. NODEN: I don't concur with that thought. I think if you went to a legitimate lender --

MR. SEDGWICK: Then what happens?

MR. NODEN: You would get a fair deal.

MR. RECHTSHAFFEN: Yes, I think that's a fair statement of exactly what happens.

MR. SEDGWICK: It's exactly what happens so that at any given point of time it would be difficult for the borrower to figure out precisely what they are paying?

MR. RECHTSHAFFEN: Yes. I feel that that's the problem, that he can neither figure out the

balance not the rate of interest.

MR. SEDGWICK: No. But I think Mr. Noden's question on the old line mortgages that provided for a quarterly payment at 6% interest at that time, which was very simple because interest was figured on the remaining balance. Does that answer your question, Mr. Noden?

MR. NODEN: Yes.

MR. BUKATOR: Mr. Chairman, may I have a few minutes? I was -- did I get it right when you said that you had about 65% or two-thirds of your business brought into you by mortgage brokers?

MR. RECHTSHAFFEN: Yes, I would call -- I would generally group them as agents which would include real estate brokers and mortgage brokers or solicitors.

MR. BUKATOR: Oh, I see. I suppose there are mortgage brokers and mortgage brokers. There are the type that are very honourable in their word and there are others who might be a little shady in their business, because human beings being what they are may be a little bit on the, let's say, crooked side. Now, did you mention the fact that you have something like over 400 accounts you are servicing now?

MR. RECHTSHAFFEN: Yes.

MR. BUKATOR: And about two-thirds of that was brought to you by these agents that you think will eventually be eliminated?

MR. RECHTSHAFFEN: Yes.

MR. BUKATOR: Are there some of them

[illegible]

that work on a margin of 1% finders fee?

MR. RECHTSHAFFEN: Well, unfortunately, no agent can operate, in my opinion, on a margin of 1% unless he has the mortgage brokerage as an incidental to another line such as real estate or insurance or if he is a practising solicitor and has the requirement for a loan for a client, he might get by on that amount. But for a broker to advertise that he can provide mortgage loans and operate an office and the expenses incidental thereto, he can't possibly do enough business on 1%. And this is why they, in a way, are caught in the trap that they can neither be proper charging a lesser loan nor can they survive other than by charging the amount that they do. So it's a business that just has to disappear. They can't reduce their charges, below a certain level.

MR. BUKATOR: Then, let's say 3% would be more like the figure that they could operate on?

MR. RECHTSHAFFEN: Well, 3% of a $3,000 loan is only $90.00. I'm speaking generally that it depends on the amount -- they would have to make several hundred dollars, two to three hundred dollars as a minimum, I think, to survive per loan on the number of loans that they are likely to get through their efforts to obtain business.

MR. BUKATOR: Well then, the man that comes to you, the mortgage broker, he no doubt has sat down with the client first and found out what their problems are. I make reference now -- did you read of the ten cases of Mr. Shannon?

MR. RECHTSHAFFEN: I read some of the cases, yes.

MR. BUKATOR: Well then, would there be a possible chance that an intelligent, conscientious, real estate broker could go to 40% of these families and see that they only are indebted to the tune of $3,000, $2,700 and find that they can consolidate this particular amount of debt and put them into one and then come to you with an intelligent picture -- which no doubt they do in many cases -- and show you their debts that are outstanding and ask you if you can provide the funds. If it makes sense to you then you do provide these funds. You provide the funds for them?

MR. RECHTSHAFFEN: Yes.

MR. BUKATOR: They might get other debts after that but for the time being they are put on the straight and narrow path?

MR. RECHTSHAFFEN: Yes.

MR. BUKATOR: And can manage financially to -- I am thinking of the 40% rejects out of your office, that's what you said, about 40% of the people that come in can't get the funds.

MR. RECHTSHAFFEN: Yes. Incidentally, concerning the applications that we receive from brokers. We ask them to provide us with a copy of the statement of mortgage form which is required under the Mortgage Brokers Registration Act so we can see that the charges aren't excessive under the circumstances. If they are, we don't deal with them.

MR. BUKATOR: I wasn't so much concerned

about the charges as I was concerned about the service that's rendered to these people by the mortgage brokers.

MR. RECHTSHAFFEN: Well, in essence, the service that they render is having found the source. The counsel that they give would be provided by the lender happily. In other words, if these same people came directly to our office and said, "We are inundated with the following debts, which we can't seem to manage", then those same arrangements would be made without charge by our office so that the service which is performed essentially is locating the lender for the borrower, not really so much a counselling service, although they do counsel them in that instance. But as I say, counselling would be available in any event.

MR. BUKATOR: Would there be a possible chance in that you have had a case -- although you have been in it a very short period of time -- where you have rejected them because the picture didn't look right, and had one of your brokers come back with these same people and after putting their house in order for them you have provided the funds?

MR. RECHTSHAFFEN: I would say that the skill of our own people is certainly equal to the skill of any broker who would put them together. (Laughter)

MR. BUKATOR: I'm a real estate broker but I do very little work with mortgages, very little. The point that I am trying to make is that we have met some very honourable men here as mortgage brokers who are rendering an exceptionally good service to the public and in my opinion you are not going to live long enough

to see them out of business because they are needed and they are doing a good job.

MR. RECHTSHAFFEN: Well, I am a young man. I hope to challenge that statement. (Laughter)

MR. BUKATOR: I was going to say to you, young man, I don't think you are going to live that long, but I thought that was being a little bit fatherly. However, they do render a good service, they come to you with a consolidated group of accounts and they paint a pretty good picture to you because they are looking for that fee. So they could practically put you out of business if two-thirds of your accounts of 400 were taken out of your office. You're not going to exist too long, as Mr. Letherby said. You're not going to make them too happy. However, not to get into that particular area. I feel that, Mr. Chairman, that there are mortgage brokers and mortgage brokers and I think there are many of them who are rendering a service to even the ten cases that are in the paper this morning. No doubt some of them, if they are on their toes, will be there to consolidate these accounts for them and say, "I think I can get you some money from this particular group". Now if, from the Security Capital Corporation Limited, and if such a thing should happen that these people who are brokers find themselves in the position where they are not going to be able to operate because they are called mortgage broker, they may form a similar company to yours. Is it difficult to start a company such as yours?

MR. RECHTSHAFFEN: I would say that it

[illegible]

involves a great deal of effort. I have been successful in launching the Company but I will say that in 1957 -- you can refer as evidence of the accuracy and the timing of this statement -- to an article in the Financial Post in which I was quoted as intending to create just such a Company in 1957 because I felt that at that time the very same purposes and the very same objects would be fulfilled by a company like this and perhaps a good deal of the abuses that developed would not have developed had there been companies such as ours earlier in the picture. I will say that having done so, I can look at this philosophically,but I can say that if you want a list of the obstacles that appear in one's path before such a company can be incorporated and the shares sold to the public and further financed in order to make it successful, I can tell you that at one time they looked to me as high as Mt. Everest. So that whether it's easier now or not, I don't know.

MR. BUKATOR: Well, I'm not going to go into that line of business, so I don't think that I need points, but your Company is entirely solvent, from what you have told us here this morning and you are rendering quite a service. Except -- I am not as handy with a pencil as Mr. White is -- if you are collecting in some instances -- is it 12 to 15, or 15 to 18% -- yes, 18%, 1½% per month, and then the broker comes in to you and because he's done a lot of footwork on this thing he charges an additional -- not additional because you don't pay it, but the borrower pays 8% to him. Now, wouldn't that put that interest in

the high bracket?

MR. RECHTSHAFFEN: Allow me to defend the position before we calculate it because I would like to be fair in what I am saying. I would also like to have fair people in the examination of examples. I suggested that the 18% traditionally arises where it is a short term loan on a building project. Under those circumstances I suggested to you that if I lend $20,000 to you for three months and I charge you 1½% per month, I am charging you $900.00 without which you couldn't be in this business and I don't think for the risks assumed in lending you $20,000 for three months that $900.00 is an overly rich compensation. The instances where builders come, they are generally not accompanied by mortgage brokers because they have a better knowledge of where to go for funds so that very often you are making a direct loan at those rates so that there isn't the addition of a brokerage fee to that rate. I would say the number of loans that we have at 1½% per month are an insignificant amount, as I have suggested.

MR. BUKATOR: I am going to ask this question. It can't be too much because when a builder is going to put up a home he gets his draws on his building as it progresses and I just can't find where you people would come into the picture or any lending body would come into the picture to loan money to a contractor to carry on until his draw came in unless it was a large project. I don't know too much about it. I come from a small town.

MR. RECHTSHAFFEN: It's either a large

[illegible]

project or a weak builder and so we are taking what we consider to be a substantial risk.

MR. BUKATOR: Well, I must defend the mortgage brokers who are doing business in a legitimate way and rendering a good service to the public. I hope that they will stay with us for a long time.

THE CHAIRMAN: Are there any other questions? Well, Mr. Rechtshaffen, that was a very good brief and we do appreciate it and I would like to say, on behalf of the Committee, thank you for coming before us this morning. We will take a five minute recess.

---RECESS.

THE CHAIRMAN: I might remind the members of the Committee to complete their forms before they get away this afternoon. Mrs. Dell has the forms which you have to sign.

We have with us also this morning, Mr. Murray Mintz of the Murev Equity Limited and also Mr. B. Sischy, who is Mr. Mintz' Solicitor, I believe. Will Mr. Mintz please come forward?

Mr. Mintz, would you care to make any opening remarks to the Committee about your own business or would you care to have the Committee ask questions about your business?

MR. MINTZ: I would prefer that the Committee ask questions.

THE CHAIRMAN: All right. Fine. Mr. Sedgwick, would you care to --

MR. SEDGWICK: Well, Mr. Mintz, I am

not the Committee,I am only the Counsel for the Committee and I have very little information about your operation so -- do you operate under your own name?

MR. MINTZ: No, sir --

MR. SEDGWICK: What name or names do you operate under?

MR. MINTZ: By way of a mortgage broker, sir?

MR. SEDGWICK: Yes.

MR. MINTZ: Murev Equity Limited.

MR. SEDGWICK: What is that one?

MR. MINTZ: Murev Equity Limited, Murev Investments Limited and Night Finance Company Limited.

MR. SEDGWICK: Then you also have some connection with a company known as Eglington Credit Corporation Limited?

MR. MINTZ: I do, sir. I am the President of that Company.

MR. SEDGWICK: What is your connection with that Company?

MR. MINTZ: I am the President of that Company.

MR. SEDGWICK: And are you the principal shareholder?

MR. MINTZ: Yes,sir.

MR. SEDGWICK: And is it a public company?

MR. MINTZ: It's in the midst of becoming one at this time.

MR. SEDGWICK: At this time it is not?

MR. MINTZ: No, sir.

MR. SEDGWICK: Who are the shareholders at this time?

MR. MINTZ: The shareholders are myself, Fred Cooper and Paul Cagin.

MR. SEDGWICK: And you hold the majority of the shares?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: And this Murev Investment Limited, is that solely your Company?

MR. MINTZ: The Company is solely owned by myself and my family.

MR. SEDGWICK: Yes. And is the same true of Murev Equity Limited?

MR. MINTZ: That's correct, sir.

MR. SEDGWICK: And is the same true of Night Finance Company?

MR. MINTZ: That is correct.

MR. SEDGWICK: Those first three, that is Murev Investments and Murev Equity and Night Finance, are, I take it, mortgage brokers registered under the Act? Is that correct?

MR. MINTZ: That is correct.

MR. SEDGWICK: And carry on an ordinary mortgage brokerage business?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: Do you deal in first and second mortgages?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: And how do you find your

lenders?

MR. MINTZ: How do I find them?

MR. SEDGWICK: Yes.

MR. MINTZ: I find that the lenders have a need for a loan, make us conversant with their need --

MR. SEDGWICK: You are talking about the borrowers now.

MR. MINTZ: I'm sorry.

MR. SEDGWICK: How do you find your lenders?

MR. MINTZ: We get our money through Eglington Credit who purchases the mortgages of Murev Investments.

MR. SEDGWICK: I see. So that you don't have to deal with private lenders?

MR. MINTZ: No, sir, we do not.

MR. SEDGWICK: And where does Eglington Credit get its money? From the public?

MR. MINTZ: From the public, sir.

MR. SEDGWICK: So that when Murev Equity or Murev Investments or Night Finance and a borrower -- if you are satisfied with the loan you take the money from your other Company, Eglington Credit, is that right?

MR. MINTZ: That's correct.

MR. SEDGWICK: And as mortgage brokers, do the three companies charge a broker's fee?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: You charge that to the borrower?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: And do you deal with any first mortgages?

MR. MINTZ: Yes, sir, we do.

MR. SEDGWICK: And on first mortgages do you charge a broker's fee?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: Yes. What is the fee that you charge?

MR. MINTZ: A minimum of $100.00 to a --

MR. SEDGWICK: Regardless of the size of the loan?

MR. MINTZ: Yes. To a maximum of 3%.

MR. SEDGWICK: To a maximum of 3%. Do you ever charge more than 3%?

MR. MINTZ: As a rule we do not.

MR. SEDGWICK: I don't know what is meant by as a rule. Do you sometimes charge more than 3%?

MR. MINTZ: Yes, sir, we sometimes do.

MR. SEDGWICK: Why?

MR. MINTZ: The loan would be a little higher so as to necessitate additional costs such as being out of town.

MR. SEDGWICK: What is the maximum that you would charge?

MR. MINTZ: I would say 4%.

MR. SEDGWICK: You never charge more than 4% then, is that it?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: That's the maximum. That is invariably paid by the borrower?

MR. MINTZ: Yes, sir. That would also include all legal fees and inspection fees.

MR. SEDGWICK: The 4%?

MR. MINTZ: Yes, as well as the $100.00 or the 3%. It would include all other fees.

MR. SEDGWICK: So if you charge the minimum fee of $100.00 that would include all legal fees and inspection fees, right?

MR. MINTZ: That's correct, sir.

MR. SEDGWICK: And if you charge 3% that would be all inclusive?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: Covering your lawyer?

MR. MINTZ: Yes.

MR. SEDGWICK: Your inspection fee and the lawyer's disbursement, is that right?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: And if you charge 4% that would also be all inclusive?

MR. MINTZ: That is correct.

MR. SEDGWICK: So that if the loan were, say, $5,000 because it's an easy figure, your all inclusive fee would not exceed $200.00, which would cover lawyer, inspection and disbursements?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: Do you do your own inspections?

MR. MINTZ: We have an independent

source.

MR. SEDGWICK: You pay him?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: Something has been said about an inspection fee. What do they run?

MR.MINTZ: They can run anywhere from $5.00 to as high as $25.00 depending on the locality, etc.

MR. SEDGWICK: Then, do the fees which you have mentioned apply also to second mortgages?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: So that whether it's a first or a second mortgage the brokerage fee would be something between 3% and 4% or, in the case of small loans $100.00?

MR. MINTZ: That's right, sir.

MR. SEDGWICK: As to the loans - they are actually made by Eglington Credit, is that right?

MR. MINTZ: No, the loan is made by Murev Investments or Murev Equity. You mean the loan to the borrower?

MR. SEDGWICK: Yes.

MR. MINTZ: That is made in advance by Murev Investments.

MR. SEDGWICK: That is, the mortgage would be from the borrower to who?

MR. MINTZ: To Murev.

MR. SEDGWICK: To Murev?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: What interest rates do

[illegible]

you charge?

MR.MINTZ: From 1% per month to 1½% per month.

MR. SEDGWICK: From 1% per month to 1½% per month. Is 1½% a month your maximum?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: Does that apply whether it is a first or a second mortgage?

MR.MINTZ: No, sir, it is usually a second mortgage.

MR. SEDGWICK: I see. And your rates would be from 1% per month to 1½% per month. Do you ever lend money by charging a bonus?

MR. MINTZ: Invariably we do not charge bonuses.

MR. SEDGWICK: You never charge bonuses?

MR. MINTZ: Well, sir, there are certain cases where individuals will approach you and say they do not want a loan at 1% a month because they plan on selling their home in the near future and they ask if you can equate that to 7% interest and a bonus so as to give you the same effective yield. These are, however, sophisticated borrowers who have come to you with the proposition.

MR. SEDGWICK: Yes. They would be what percent of your business, in terms of money?

MR. MINTZ: In dollars, about 1% perhaps of the total outlay.

MR. SEDGWICK: About 99% of your loans would be for a stipulated rate of interest?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: Varying you say from 1% per month to 1½% per month?

MR. MINTZ: That is correct.

MR. SEDGWICK: And then the loan is made in the first instance to Murev or to Night, is that right?

MR. MINTZ: Murev Equity Limited.

MR. SEDGWICK: Murev Equity Limited. And then what is the transaction with Eglington Credit Corporation?

MR. MINTZ: Well, we would then sell the mortgage to Eglington Credit.

MR. SEDGWICK: I see. How do you carry out that transaction? Do you sell it at its face?

MR. MINTZ: Yes, sir. Sometimes it may be sold at a premium.

MR. SEDGWICK: But it is --

MR. MINTZ: That is, sir, a $10,000 motgage may be sold for $10,100.00.

MR. SEDGWICK: To Eglington Credit?

MR. MINTZ: That's right.

MR. SEDGWICK: As you are Eglington Credit and also Murev, what basis do you decide the price at which it will be sold to Eglington?

MR. MINTZ: It usually can be as high as one or two months interest.

MR. SEDGWICK: And that difference is a profit accruing to Murev, is that right?

MR. MINTZ: That's correct.

MR. SEDGWICK: Then is the mortgage assigned to Eglington Credit?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: And from then on Eglington Credit collects the payments of principal and interest?

MR. MINTZ: That is correct, sir.

MR. SEDGWICK: And then Eglington Credit borrows money from the public, is that right?

MR. MINTZ: That's right.

MR. SEDGWICK: At rates ranging from 7¼% to 10%.

MR. MINTZ: That was the rate in the brochure you are holding. The rate has since been reduced.

MR. SEDGWICK: When was it reduced?

MR. MINTZ: About a year ago, sir.

MR. SEDGWICK: What do you pay to the public now?

MR. MINTZ: 8% secured by mortgages -- I'm sorry, 7¼ to 8%.

MR. SEDGWICK: 7¼ to 8%. So that if I, or anyone, should go into Eglington Credit with $10,000 that you wanted to invest, you would give them between 7¼ and 8% on their money?

MR. MINTZ: That's right.

MR. SEDGWICK: And then the difference between the 8% and your percent, that is 1½% per month -- that is roughly 18% -- that accrues as a profit to

Eglington Credit?

MR. MINTZ: Their gross profit, yes.

MR. SEDGWICK: And does Eglington Investments collect the principal and interest?

MR. MINTZ: That is correct.

MR. SEDGWICK: And remit it to the mortgage to be invested?

MR. MINTZ: That is correct.

MR. SEDGWICK: So the investor in that case would not have a mortgage security in his own name?

MR. MINTZ: No, the investor would have a mortgage assigned in his name.

MR. SEDGWICK: I see. So that the mortgage would be taken from Murev, assigned to Eglington, is that right, and then there would be a mortgage of that mortgage to the individual investor?

MR. MINTZ: That is correct.

MR. SEDGWICK: You do not assign the mortgage to the investor?

MR. MINTZ: No, sir.

MR. SEDGWICK: Well then, I have another brochure of yours which is, I believe, November of 1961, where you speak of the protection for the investors in Eglington Credit and you say you hold all these securities; (1) the lender's copy of the actual mortgage. Would that be the mortgage from Murev?

MR. MINTZ: That would be the mortgage to Murev, yes.

MR. SEDGWICK: (2) An assignment of

the mortgage showing the details in terms of your loan.

MR. MINTZ: That would be the mortgage of the mortgage.

MR. SEDGWICK: That would be the mortgage of the mortgage. I see. (3) certified copies of fire insurance policies and (4) a loan amortization schedule showing the principal balance of your loan at any time. Do you provide the investor with a table showing the amortized balance of the loan, month by month?

MR. MINTZ: We do.

MR. SEDGWICK: Do you provide the borrower with a similar table so that he knows the extent to which his debt is decreasing, month by month?

MR. MINTZ: We do. We have charts.

MR. SEDGWICK: And as to your loans, what is the term on your mortgages?

MR. MINTZ: We give up to 15 year terms.

MR. SEDGWICK: And are they all fully amortized over their term?

MR. MINTZ: Invariably 98% of them are.

MR. SEDGWICK: That is, on their face they provide for complete amortization?

MR. MINTZ: They are paid in full when the loan is due.

MR. SEDGWICK: Then you do not have, I take it, loans that have what has been called a balloon payment at the end of a fixed period?

MR. MINTZ: Excepting in a case where you are purchasing a mortgage from an outside source.

MR. SEDGWICK: I see. Do you have many such loans?

MR. MINTZ: Not too many, sir. There are advertisements we place in the paper offering to purchase these mortgages and we get various calls on them.

MR. SEDGWICK: And in the case of those mortgages, will some of them be bonus mortgages?

MR. MINTZ: Well, we buy them at a discount.

MR. SEDGWICK: Yes. That is, it may be a $5,000 mortgage for which you would pay $4,000 or $3,500?

MR. MINTZ: That's right.

MR. SEDGWICK: Something of that order. And many of those loans would be for a fixed period, but would not amortize themselves over that period?

MR. MINTZ: That's right.

MR. SEDGWICK: What is your practice at the end of that period as to renewals?

MR. MINTZ: We will entertain any application for renewal at a fixed rate of interest without any bonus.

MR. SEDGWICK: I see. That is, you will take the then amount -- say it's $2,500 -- and you would entertain an application to renew at whatever your going rate may be at that time?

MR. MINTZ: That is correct.

MR. SEDGWICK: 1% a month or 1½% a month?

MR. MINTZ: That is correct.

MR. SEDGWICK: And when you say you entertain applications, you grant most of them?

MR. MINTZ: If the payment schedule has been proper and we haven't had to issue a writ of foreclosure or we haven't had to chase them for the payments, then we are happy to renew them because they are the type of borrowers we like. If, however, they have been bad we would then ask them to get their financing elsewhere.

MR. SEDGWICK: I see, pay you off and go somewhere else?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: How long have you been in the mortgage brokerage business either in your own name or under the name of any one of these companies?

MR. MINTZ: I've been in business since 1953.

MR. SEDGWICK: And is that your sole business?

MR. MINTZ: Yes, sir.

MR. SEDGWICK: You don't operate in connection with the real estate business?

MR. MINTZ: No, I do not.

MR. SEDGWICK: Do you know a company called Packet Investment Corporation Limited?

MR. MINTZ: I have heard of it.

MR. SEDGWICK: Did you ever have any connection with it?

MR. MINTZ: I did not.

MR. SEDGWICK: Or Ironclad Investments Limited?

MR. MINTZ: I did not.

MR. SEDGWICK: No connection?

MR. MINTZ: None at all.

MR. SEDGWICK: Or Cross Canada Consolidated Funding Limited?

MR. MINTZ: That company I have never heard of, sir.

MR. SEDGWICK: Or do you know a man by the name of George Pollock who had something to do with those companies?

MR. MINTZ: Yes, I know Mr. Pollock.

MR. SEDGWICK: Do you have any business connection with him at this time?

MR. MINTZ: No, sir, I do not.

MR. SEDGWICK: Did you at any time?

MR. MINTZ: No, sir, I did not.

MR. SEDGWICK: May I take it you know nothing whatever about any operations he may have carried on?

MR. MINTZ: That is correct.

MR. SEDGWICK: I think those are the only questions I have, Mr. Chairman.

THE CHAIRMAN: Mr. Bukator? Mr. MacDonald? Mr. White? Mr. Belanger?

MR. BELANGER: I was just intrigued with the operation when you have three different companies, one more or less like the --

MR. MINTZ: Could I explain that to

you, Mr. Belanger?

MR. BELANGER: Beg your pardon?

MR. MINTZ: Could I explain that to you?

MR. BELANGER: Yes, I think so.

MR. MINTZ: Murev Investments is a company that advertises for applications on mortgages. Since I am not a lawyer I can't be too conversant with this, but under the Corporations Act the company incorporated under Section 32 can only take an application for a mortgage, hence Murev Equity Limited. Night Finance at one time took the place of Murev Equity Limited, however, a person applying for a loan to Murev Investments and having paper drawn up in the name of Night Finance looked a little odd, hence the incorporation of Murev Equity Limited.

MR. BELANGER: And what about Eglington Credit?

MR. MINTZ: Eglington Credit is not a mortgage broker, sir.

THE CHAIRMAN: Mr. Noden, do you have any questions? How about Mr. Reilly?

MR. REILLY: I'm happy, Mr. Chairman.

THE CHAIRMAN: Your happy. Mr. Irwin? Well then, there are no further questions? All right then, thank you very much, Mr. Mintz for coming before the Committee this morning.

MR. MINTZ: Thank you, gentlemen.

THE CHAIRMAN: We will recess then, gentlemen until 2:00 o'clock.

---LUNCHEON RECESS.

---UPON RESUMING AT 2:00 P.M., AUGUST 14, 1963.

THE CHAIRMAN: Gentlemen, we will proceed with the meeting. With us this afternoon we have Mr. A. H. K. Musgrave, who is President of the Ontario Federation of Agriculture and associated along with him we have Mr. Ross and Mr. Belyea the Research Director and Mr. C. Huffman the Vice-President. I believe Mr. Musgrave is going to present their brief and I will ask him to do so now. Mr. Musgrave.

We all have a copy of your brief and if you would proceed to read it, why I think that would be best.

MR. MUSGRAVE: Thank you, Mr. Chairman.

"Mr. Chairman & Gentlemen: The Ontario Federation of Agriculture, representing the majority of farm family businesses, farm co-operatives and farm marketing boards in Ontario, is pleased to present to this Committee some opinions respecting consumer credit and its impact on our society. Especially are we concerned about the effects of expanding consumer credit on farmers, both in their capacity as potential and actual borrowers, and as business operators in a changing economic environment. If over-expansion of consumer credit spells future economic dislocation and hardship for us all, farmers will be among those most affected.

"The O.F.A. welcomes this provincial investigation of credit practices and problems. Even though freedom of action of a provincial legislature to deal with credit problems may be limited somewhat by the

division of powers under the B.N.A. Act, the failure of federal authority to deal effectively with problems associated with consumer credit underlines the importance of this Committee and the work it must do. We hope that our slender contribution may be of some help in arriving at appropriate solutions.

"According to a recent press report, Canadians owed a total of $3,742,000,000 in the main areas of consumer credit as of the end of April, this year. This was an 8.4% increase over the total for the same month in 1962 and was a gain of $76 millions over the previous month-end accounting.

"A break-down of this total according to principal sources of credit revealed the following:

Personal Bank loans	$1,669,000,000-up 8.1% from a year earlier
Sales finance companies	790,000,000-up 6%
Small loan companies	714,000,000-up 15.5%
Department stores	385,000,000-up 5.2%
Furniture & appliance stores	184,000,000-up 1.7%

"Areas not covered by the report included amounts owed to doctors, dentists, credit unions, other retail dealers, and oil companies under credit cards.

"Although informed opinion is divided on the matter, it is difficult not to perceive in the above figures some small, sinister signs of a coming painful reckoning. Reaching back a little further into time (to 1951), and reviewing the trends of consumer borrowing yields evidence which lends these signs a more ominous character. In 1951 at year-end, the main

sources of consumer credit (finance companies and retail dealers, chartered banks and life insurance companies) had advanced credit in the amount of $1,335 millions. This represented about 9% of personal disposable income in that year. Co-incidentally it was almost precisely equal to the total of personal savings in that year. By 1962 the Canadian consumer owed these same sources a total of $4,455 millions, approximately 15.8% of personal disposable income, as against 9% ten years earlier. To date there is no indication of any let-up in what must be described as an orgy of consumption on borrowed money. No wonder consumers complain about food prices. Food purchases are normally on a cash basis.

"To a large degree the relative buoyancy of the Canadian economy is underpinned by consumer credit. Spending habits that a former generation would call profligate, have been declared virtuous by the prophets of Madison Avenue whose prime purpose is to magnify the catalogue of consumer wants. Agencies designed to cater to those wants have not lacked for customers. For example, in 1951, in the field of small loans alone, chartered small loans companies and licensed moneylenders made 680,174 loans for a total of $121.6 millions. By 1960 the number of loans had reached 1,094,512 for a total of $547.8 millions.

"There are two figures on the back, two charts: - Fig. 1 shows the relationship between consumer credit and personal disposable income between the years 1951 and 1962. The Index of Consumer Credit

Outstanding at Year End clearly shows no tendency to decline in relation to the Index of Personal Disposable Income. Rather there is a strong tendency for the gap between the two to widen at a disturbing rate."

The second last sheet has this figure showing the Index of Personal Disposable Income from 1951 up to 1962. It's rising at a fairly steady rate -- it's the dotted line. And the solid line is the Index of Consumer Credit Outstanding, which is going up in waves a bit, but towards the last five years it's a pretty steady upward climb.

"Figure 2 describes how the principal sources of consumer credit contribute to the expansion of consumer debt. And that is the last sheet and that shows -- the bottom line is loans on life insurance, the second is bank loans, the third is finance companies and retailers. Those are the different types of indebtedness.

"Concerning the outcome of expanding consumer debt, with respect to its effect on the economy, the noted U.S. economist, who is a Canadian, by the way, J. K. Galbraith has this to say:

'As we expand debt in the process of want creation, we come necessarily to depend on this expansion. An interruption in the increase of debt means an actual reduction in demand for goods ......

'No one can speak with confidence on the extent of the danger. However, few things are more satisfactorily established in economics than that debt creation, whether by producers or consumers, is a

major source of uncertainty in economic behaviour.

'An increase in unemployment, accompanied by the fear that it might get worse, could induce a general effort to avoid new debt and reduce the old. The further effect on consumer spending, and thereafter on employment,.......could be considerable and disagreeable.

And the last quote -- 'It would be entirely permissible (for economists) to foresee the gravest results from the way consumer demand is now sustained by the relentless increase in consumer debt.'

"The horns of the dilemma are these: (1) 'An interruption in the increase in debt' reduces demand and threatens the rate of economic growth; (2) Expansion of debt beyond some unknown level could have even more disastrous consequences. Whatever remedies are proposed are likely to be politically unpalatable. In any event, remedies implemented under political auspices are likely to come too late to be fully effective.

"There is another aspect of consumer debt which accentuates the erosion of future personal disposable income and adds a further degree of uncertainty with respect to the health of the economy, namely the exorbitant rates of interest charged on loans from unscrupulous lenders. Testimony already given before this Committee has indicated to what extent the unwary debtor may jeopardize his future income to satisfy immediate wants and needs. Thus the actual burden of consumer debt may be considerably greater

than the figures on the principal amounts would indicate.

"Faced with the economic dilemma posed by consumer indebtedness and the evidence of abuses by certain credit agencies, we believe that the task of providing and applying solutions is manifestly the responsibility of government. We believe also, that the situation is sufficiently serious to warrant speedy action.

REMEDIAL ACTION

"The O.F.A. in coming to a decision respecting ultimate means of reducing consumer dependence on credit to a more desirable level is forced to square its views with the following points:

"(1) It has no criteria either for determining the degree of danger inherent in the present situation or for establishing a 'safe' level of consumer credit.

"(2) It believes that any artificial cessation of the current expansion of credit could have serious short-term repercussions on some sectors of the economy. The present rate of economic growth is deemed to require a sustained and growing demand for consumer goods. Interference with present credit requirements would necessitate some offsetting programme in the public sector.

"(3) Such public programmes as might be adopted would probably require a major change in public attitudes and values, and accordingly would be politically inexpedient.

"(4) On the other hand, the offering

by unscrupulous money lenders of loans at usurious rates must be curbed.

"Accordingly, the O.F.A. is unable to offer solutions which would constitute more than a bare beginning towards consumer credit reform. Basically, the O.F.A. has two approaches in mind -- one legal the other educational.

"Dealing first with the educational, it is deemed only fair that the borrower, at all times, should be made fully aware of the total charges to be exacted by the lending agency for the use of money. To enlarge upon this approach we cite the following:

"(1) Effective interest rates and other costs of credit should be made known in writing to the borrower expressed both as a percentage of the sum borrowed and in actual dollars and cents. This would apply to loans made by all public credit agencies, without exception.

"(2) All mortgage agreements whether extended under VLA, FCC, NHA, or private auspices should include a schedule of repayment, spelling out clearly the payment-by-payment status of the mortgage, including the amount of principal remaining, and the portions of each monthly payment ascribed to principal and interest.

"(3) The encouragement of the use of credit by retailers is a questionable practice. Particularly questionable is the practice of encouraging minors to establish charge accounts at retail establishments of various kinds on the spurious grounds

that such experience is 'educational'. We have no doubt that the experience of buying something beyond one's means is 'education' of a shattering character. We submit that education in home economics is more appropriately offered by persons and institutions more disinterested than retailers in the 'teen-age' purchase and consumption of economic goods and services.

"(4) There was a time in the economic affairs of men when it paid to pay cash. The use of cash ensured the purchaser of favoured treatment, the best possible service, quick delivery and the prospect of a small discount. Nowadays, the opposite seems to be true. Discounts for cash are rare, the best service is directed mainly toward customers whose maxim is to refuse to pay unless the article or service purchased measures up to exacting standards. The cash paying customer is quickly forgotten. He has paid his money. If dissatisfied with his purchase he may have difficulty obtaining an adjustment. In some lines of retailing (for example, automobiles) customers preferring to pay cash are made to feel almost unwelcome.

"This change in our value system must someday be examined. Probably nothing short of a prolonged deflationary period will cause the old attitude toward the cash customer to return. Such medicine, however, is too distasteful for serious consideration.

"(5) One final word should be added with respect to the education of the borrower. Most persons in our society either because of chronic improvidence or because of a series of misfortunes,

[illegible]

occasionally find themselves without ready cash with which to satisfy wants and needs. Many of these fall easily into the poor risk category for whom credit will always be either unobtainable or relatively expensive. Others will find credit cheap and plentiful (because of ingrained and known habits of thrift). While it is likely that the improvident will always be with us, it is irresponsible to suppose that their numbers must inevitably be so large. Not many years ago in our society the poor were merely poor. Money typically was for productive rather than consumptive purposes. Nowadays in the light of the change of attitudes respecting the use of credit, the poor are not merely poor, they can be and often are saddled with a heavy load of debt, too often assumed to satisfy frivolous wants. We would agree that the extension of consumer credit on the present scale has changed the economic environment and accordingly requires to be better understood. We believe it is not illogical to propose the addition of courses in household credit management to the curricula of primary and secondary schools. These could be part of, or separate from, present courses in basic mathematics and household science. Among other things, the young could be taught how to establish a desirable credit rating, how to borrow prudently from established agencies, how to calculate effective interest rates, how much to borrow in relation to income, and how to amass an estate. There would be considerable virtue in examining alternative sources of credit, in studying how our chartered banks operate, in learning

how to establish and manage credit unions. If consumer wants and needs are henceforth to be financed by credit on an increasing scale, our children, for their own safety and for the safety of the economy, must be taught where the pitfalls lie.

"On the legal side, the Ontario Government's ability to regulate hangs to some degree on the results of the reference to the Supreme Court of Canada of the Unconscionable Transactions Relief Act. As we understand it, the question to be decided, in effect, is whether the setting of maximum rates of interest comes under provincial jurisdiction. Certainly the O.F.A. would approve the establishment by law of maximum interest rates for the several categories of loans. Like the Ontario Government it must await the decision of the Supreme Court.

"In the meantime, we know of no legal barrier to the imposition of standard contracts which would protect the borrower as well as the lender. Accordingly we believe that a government agency must be established vested with powers to police, standardize and simplify credit contracts and forms. One major item to be contained in such authorized contracts should be an expression of the effective interest rate per annum as a percentage of the total loan and monetary terms. Although several witnesses before this Committee have spoken of the technical difficulty of arriving at a precise rendering of the effective interest rate, such a task is surely not beyond the capacity of present-day accounting skill. Perhaps a government

agency appointed to oversee the activities of credit-granting institutions and persons could assume the responsibility of establishing standard procedures for determining effective interest rates.

"The provincial government's right to license mortgage brokers has not been questioned. The O.F.A. is heartily in accord with proposals that the activities of certain brokers who arrange mortgages at usurious rates and who charge excessive fees for their dubious services be examined zealously. While the denial of a license to such individuals may not be of immediate help to borrowers already captive, the threat of exposure and denial of license may tend to place future borrowers in a better position.

"In summary, all indications point to the conclusion that Canadians, willy-nilly, will continue to employ ever larger quantities of credit in the satisfaction of their wants and needs as consumers. Whether such use of credit is to be regarded as a tonic for the economy or as a habit-forming stimulant is still a moot point. There is some agreement that to curb the use of credit would generate unpleasant withdrawal pains. To offset the economic dislocation attendant on consumer credit curbs, public fiscal measures might need to be adopted. Effective implementation of these measures might be constitutionally difficult.

"Expanding consumer credit is a new and unpredictable ingredient of economic life. If we have to live with it, we need to learn how to control

[illegible]

it.

"The O.F.A. thanks the Select Committee on Consumer Credit for this opportunity of presenting the views of organized agriculture in Ontario.

THE CHAIRMAN: That's fine. Now, do you care to add anything to what is contained in the brief or if not we can proceed, perhaps, with a few questions. Would you care to ask a few questions, Mr. Sedgwick?

MR. SEDGWICK: Mr. Musgrave, I find it difficult to ask you anything because, speaking only for myself, I agree with almost every word in your brief. There are one or two points which occurred to me, however. On page 4, sub-section 1 at the bottom of the page where you say, "Effective interest rates and other costs of credit should be made known in writing to the borrower expressed both as a percentage of the sum borrowed and in actual dollars and cents." Many members of the Committee have expressed themselves as feeling that that should be done, but I have been bothered, personally, about the fact that some people who sell on credit have no cash price at all. And I suppose those people would merely say cost of credit nil, which isn't, of course, true. It's included in the price. As you rightly say in your brief, they don't want cash customers, they want credit customers because they keep on coming. As soon as one item is paid for they get them to buy something else. I wonder what you could do about those people? How could you --could you demand that there always be a

stipulated cash price that had some relation to the credit price in that it was slashed by the known cost of credit?

MR. MUSGRAVE: May I ask, Mr. Chairman, and you, sir, supposing a customer comes in to such an establishment and wishes to pay cash. What happens?

MR. SEDGWICK: Well, I'm told, but I'm only relying on second-hand information, that the price is the same whether you pay cash or buy on credit. Certain jewelry firms, I'm told, sell that way. They don't want the cash customer or at least they give them no advantage. You are quite right, by the way, about the automobile people, they don't welcome the cash customer, some of them.

MR. MUSGRAVE: Well --

MR. SEDGWICK: I think it would be a complicating factor, however.

MR. MUSGRAVE: I think it would.

MR. SEDGWICK: Some of the people who now sell on credit advertise that the price is the same whether for cash or credit. Credit costs you nothing.

MR. MUSGRAVE: Would it not be, sir, that competition might take a hand in regulating that?

MR. SEDGWICK: It might, it might. I don't know. I don't know. It certainly would make any kind of legislation of that sort somewhat difficult of enforcement, wouldn't it?

MR. MUSGRAVE: Yes, it would.

MR. SEDGWICK: The same comment applies

to item 4. And then, of course, I agree with you that we are in a position of great uncertainty. It is not sure at the moment whether the federal or provincial legislature has effective jurisdiction in many of these fields. But would you agree with me as to this -- and I am looking now at page 7, the last paragraph where you say, "To offset the economic dislocation attendant on consumer credit curbs, public fiscal measures might need to be adopted." I take it that they could only be effective on a federal basis?

MR. MUSGRAVE: I think that --

MR. SEDGWICK: It would be very difficult to have one set of fiscal curbs applying to one province and quite a different set applying to another. And, lastly, and looking at your charts, the second chart, where you say in the footnote, "A goodly portion of bank personal loans are 'secured' by marketable stocks...". I take that they are not really consumer credit. The man merely makes his choice. He decides, "I won't sell my bonds at the moment, I'll borrow on them"? But they are not an aspect of consumer credit that we discussed?

MR. MUSGRAVE: No. There's no risk.

MR. SEDGWICK: No, there's really no risk. And he's not pledging his future. He's really just using up his savings. Have you any idea of what proportion there would be of bank personal loans?

MR. MUSGRAVE: I don't -- do you have figures on that?

MR. MacDONALD: I'm not positive just

[illegible]

how the figures --

MR. SEDGWICK: Maybe there are no figures. I don't know.

MR. MUSGRAVE: Finance companies and retail dealers had the figure in '62 of $2,499,000,000 and chartered bank loans were $1,685,000,000.

MR. SEDGWICK: You don't know how many of those would be secured by marketable --

MR. MUSGRAVE: No, we can't tell you that.

MR. SEDGWICK: The banks alone would know that.

MR. MUSGRAVE: That's right.

MR. SEDGWICK: That's all I have to say. Thank you very much.

THE CHAIRMAN: Mr. Bukator?

MR. BUKATOR: I have nothing to quarrel with in the brief. I think it's exceptionally well done and well thought out. You will heartily agree with the fact that there should be complete disclosure of the interest paid by anyone in any year. You believe that people should pull in their belts a little bit and not buy unless they can afford it with a very substantial down payment, I gather. And this is what we are all striving for on this Committee, but how we are going to meet the matter is a different story.

THE CHAIRMAN: Mr. MacDonald?

MR. MacDONALD: Mr. Chairman, there are a number of points I'd like to raise. The experi-

ence of people in the agricultural industry or rural communities on consumer credit is going to be much the same as the general experience that we have dealt with before this Committee and the abuses they have to submit to. But sometimes it might be particularly applicable to a rural area. For example, I have been rather intrigued with the regularity with which witnesses have pointed out that in the availability of mortgage money, for instance, the interest rates are always higher in rural areas or out-of-the-way places. Have you found this to be a source of objection and contention that to get a comparable amount of money that normally was available from a regular lending institution because you were out in a rural area you have to pay an extra charge?

MR. MUSGRAVE: Mr. Chairman and Mr. MacDonald, I don't know that this is -- of my own knowledge -- I don't know that that is the case. It would seem to me, however, that there is a trend toward fewer and larger farmers and so property as a residential thing is more apt to be at a discount in rural areas. There will be farms now where the farm buildings are being used but not the house. In some cases those houses are being occupied by people who are working in villages and towns but there is -- I think we would have to say that the fact that the population is moving toward more concentration in cities and towns would tend in the direction you say.

MR. MacDONALD: A second point I would like to raise. Mr. Sedgwick agrees completely

with the philosophy that you have expounded. Having been raised on a farm I think I agree with it too. But wouldn't you truthfully have to admit that perhaps there are a very few sectors of our economy today that has to live on credit to as great an extent as the agricultural community? The desperate need for capital in enlarging farms and so on?

MR. MUSGRAVE: We are talking there, sir, about producing credit, aren't we, rather than consumer credit. The farmer does need lots of credit, yes. He uses a terrific amount of it in enlarging his operation, and he must enlarge it, he has to lay out large amounts for implements, livestock. He uses an awful lot of credit but not any more consumer credit than anybody else. Maybe not as much.

MR. MacDONALD: You may be right on the consumer end.

MR. SEDGWICK: And he has special attitudes on credit that he --

MR. MUSGRAVE: Farm Credit Corporation.

MR. SEDGWICK: Yes. There are credit sources available to the farmer not available to the city dweller who wants to buy an automobile, for instance.

MR. MUSGRAVE: Farm Credit Corporation wouldn't help the farmer buy an automobile.

MR. SEDGWICK: No, but I say there are special --

MR. MUSGRAVE: Oh, yes.

MR. SEDGWICK: Special sources of credit available to him.

MR. MacDONALD: Setting aside for a moment the distinction between consumer and producer credit, what is the feeling at the moment in the O.F.A., for example, in regard to the availability of credit? Is it sufficiently available or is the farmer hard put to get necessary capital for his needs?

MR. MUSGRAVE: Well, right there, sir, there are going to be differences of opinion. Some of our groups would like to see credit more readily available at more reasonable rates for consolidation of operations where a young farmer who is taking over from his father and perhaps has to add another farm to the operation to make it an economic operation. The little hundred acre farm of 30 or 40 years ago will not -- is not economically sound now. You can't operate it as an economic unit and so the young farmer is faced, if he wants to stay in the business, with enlarging his operation and in some, under some circumstances, it is difficult for him to get what credit he needs. Now there have been some improvements been made recently that have helped. On the other hand, some people say the farmer is producing too much now, he's producing a surplus of a number of food items with the credit he's got. If you give him more credit he'd have a still greater surplus. Now, you have a difference of opinion. The younger farmer who is moving into a larger operation is going to be able to produce and will have to produce at no greater, with

no greater price in the end. The consumer is going to get the advantage of that. But the small uneconomic unit is going to have to drop out.

MR. MacDONALD: What about the availability of credit to farmers collectively. Is there a collective need for credit in terms of coping, for example, with a surplus of tobacco or even marketing tobacco when there is no surplus or a collective need of farmers for credit to build marketing agencies and perhaps even to get into the processing field?

MR. MUSGRAVE: I don't know how far you are questioning me on this, sir, and I don't know how far I am competent to answer. I do happen to be a Director of United Co-operatives, which is a cooperative wholesale, representing some 80,000 farmers in a hundred-odd local co-operatives. United Co-operatives is not suffering from lack of credit facilities.

MR. BELANGER: On page 3 of your brief, towards the centre of the page, you mention here, "The horns of the dilemma are these: 'An interruption in the increase in debt' reduces demand and threatens the rate of economic growth". But you say, "In any event, remedies implemented under political auspices are likely to come too late to be fully effective." Why do you make such a statement?

MR. MUSGRAVE: Mr. Chairman, I think we are of the opinion that government will hesitate to act in a way that might be unpleasant until we have a condition of emergency. I read an article the other

day. We are so busy dealing with things that are urgent that we have no time to deal on a long-range basis with things which are merely important. Until they in turn become urgent. Now, I don't know whether that answers your question. I'll admit to a certain cynicism.

MR. BELANGER: Here you say that you don't think they are helping anything and then at the end you say, "Faced with the conomic dilemma posed by consumer indebtedness and the evidence of abuses by certain credit agencies, we believe that the task of providing and applying solutions is mani-featly the responsibility of government. We believe also, that the situation is sufficiently serious to warrant speedy action." (Rest inaudible)

MR. MUSGRAVE: Right. We are pessimistic and optimistic at the same time. We will admit we are not consistent. (Laughter) And we have company.

MR. BELANGER: (Inaudible)

MR. MUSGRAVE: Well, could we say that we are needling a little?

MR. BELANGER: That's a good way of putting it. (Next question inaudible) Certainly if we were to get back to the old system where if you pay ready cash you get some sort of a discount, I agree with that. And I was interested in what you had to say about bringing up this type of subject in the school cirriculum. I have maintained this for a long while, that the system of education we have today is

way beyond what the needs are, what the pressures are. I think this should be put on the courses of subjects. I agree with you.

THE CHAIRMAN: Mr. Hoffman, do you have any questions?

MR. HOFFMAN: I had a questions which concerns describing the difference between producer credit and consumer credit. My concern was for the small farmer, the beginner, who is having trouble getting his organization or his farm on wheels. I think it is a pity to have his credit curtailed (rest inaudible)

MR. MUSGRAVE: Well, the very small operator is not now totally dependent on his farm earnings in most cases. There may be a very few. But for the most part the very small operator on a small acreage has off-farm income from some other source. Perhaps he does some building or he may do custom work or he has some other income. The operator on the borderline farm that is big enough that he can't do anything else but small enough that he can't make a living, he is the person in trouble. If he's an older person he probably isn't able to expand his operation. If he's younger then he needs that Farm Credit Corporation or Junior Farmer Loan or something like that. And he shouldn't be deprived of it because he's the person who is going to carry on and produce food. I would agree, sir, with that.

MR. HOFFMAN: How are the Junior Farmer Loans working out?

[illegible]

MR. MUSGRAVE: I don't know. May I ask -- do you have any definite figures on the Junior Farmer loans, how those were -- as far as I know they are doing very well, sir.

MR. BELYEA: As you may recall,sir, the Junior Farmer Loan Act disappeared for a couple of years or so and then it was brought back. I don't know whether there has been enough time to make an assessment of the, what has happened since.

THE CHAIRMAN: There was a feeling in your organization that it should be revived?

MR. MUSGRAVE: Yes, and wasn't the amount increased?

MR. NODEN: You are in favour of it?

MR. MUSGRAVE: Oh, yes, oh, yes.

MR. NODEN: Mr. Chairman, on page 4, it says, "Accordingly, the O.F.A. is unable to offer solutions which would constitute more than a bare beginning towards consumer credit reform. Basically, the O.F.A. has two approaches in mind -- one legal, the other educational". You immediately start off dealing first with education. Why did you do that? Why didn't you deal with legal first?

MR. MUSGRAVE: I can't answer that. I don't know. Mr. Belyea, was there any particular reason why that was done?

MR. BELYEA: Well, I think it was because we felt we had the most to say about education. There was no reason in mind.

MR. MUSGRAVE: I don't think there was

any premeditation on that.

MR. SEDGWICK: Maybe it's because the legal situation is so confused.

MR. MUSGRAVE: Well, that's partly it, sir, and also because the Federation of Agriculture is a voluntary association. None of the members are under contract to remain with the Federation. Any of them may express a dissenting view . Our work is, to a large extent, educational.

MR. NODEN: The thought just came to mind that maybe you had something to offer in a legal way that would some of the problems of today in this excessive --

MR. MUSGRAVE: Well, one point that we did want to make, and perhaps that had something to do with leaving it till the last, was the disclosure of effective interest rates. That is under the legal end of it.

THE CHAIRMAN: Is that all, Mr. Noden?

MR. NODEN: That's all.

THE CHAIRMAN: Do you have a question, Mr. Reilly? Mr. Belanger?

MR. BELANGER: Tell me, Mr. Musgrave, from your experience, do the farmers deal mostly with banks or finance companies. I think at one time they dealt mostly with banks. Is there a trend now to the finance companies instead of banks?

MR. MUSGRAVE: I shouldn't say there was a trend. I think ever since we have had finance companies there have been some farmers, who find credit

difficult to obtain at the banks, who will go to finance companies. I didn't realize that until a few years ago and then I found out, rather by accident, that quite a few of my neighbours were dealing with finance companies and I was pretty well shocked. We have, some of us, been instrumental in organizing credit unions, rural credit unions, which are -- I don't think they are hurting the banks business any -- but we have good hopes that they are reducing the amount of dependence on finance companies. Incidentally, they find no difficulty in stating both the effective rate of interest and the amount in dollars. They don't seem to find any difficulty in stating that.

MR. BELANGER: You mean the credit unions?

MR. MUSGRAVE: The credit unions.

THE CHAIRMAN: They are filling a need, too, in your area?

MR. MUSGRAVE: Very definitely.

THE CHAIRMAN: Mr. Irwin, I believe, has a question.

MR. IRWIN: A couple of minor questions. I wondered why did not the price of personal loans by credit unions be included in the listing of other sources like bank loans and so on?

MR. MUSGRAVE: I suppose those were in DBS figures. May I ask Mr. Belyea?

MR. BELYEA: Mr. Chairman, this is a direct quote from a press report. Credit union figures were not included in that report.

MR. IRWIN: No reason given?

MR. BELYEA: It wasn't given, no. I think it would be readily available from DBS.

MR. IRWIN: The second point is also a question of analysis. On page 2, it makes a comparison of the extent of the type of consumer credit advanced showing a substantial increase from 9% in 1951 to 15.8% in 1962 as a percentage of personal disposable income. I'm not criticizing these figures, they are quite impressive, but I wonder if this is entirely a good guide to the expansion of credit. I believe that the terms, in 1951, for example, I believe that there was then both legislatively required and by the practices of the trade a good deal shorter period involved in most consumer credit arrangements. And there apparently has been a substantial lengthening of the period --

MR. MUSGRAVE: Which would increase that figure.

MR. IRWIN: In part that's true, but the dead weight of the annual payment on disposable income in any one year, if you want to compare it to 1962 would be considerably narrower. In other words, I don't know what it would be, but supposing it were 5%, the annual payments might have been 5%, where in 1961 they might only be 7 or 8%. So the ability to pay may be a little better than stated by the doubling of the amount of credit in relation disposable income. I just wondered if you had done any studies in that regard that might be a guide to the --

MR. MUSGRAVE: I don't think we have anything, sir, anything accurate on the length of the terms other than what is a sort of general trend.

MR. IRWIN: I would be interested to see what is the dead weight effect on disposable income on the annual payments involved on credit. It would have some bearing on the ultimate dangers for the advancing of credit. Another point that was already raised by Mr. Belanger. I came from the West and grew up during the depression in the West and became imbued with the unalterable war between farmers and granters of credit of any kind and I am very much surprised at the mildness of your tone. (Laughter) It seems to me you had an opportunity to lambaste everybody in the picture. (Laughter)

I was interested in the same question asked by Mr. Belanger. Has there been a change in the habit of the use of credit by farmers? Thirty years ago there was the bank and mortgage company and the insurance company. Now what have they added to that?

MR. MUSGRAVE: I wonder if I may ask my Vice-President, Mr. Huffman. Would you care to answer that question?

MR. HUFFMAN: Mr. Chairman, I would certainly say that they have gone to other finance companies in the same manner and same principals as the urban dweller, but to the production end of it. I would think that the finance companies, machine companies, and the bank and these loan companies carry the same

[illegible]

amount.

MR. IRWIN: We have heard, for example, that the person in the city buying a car or TV set or refrigerator might be paying rates of 18 to 24%. If a farmer is buying implements, for example, would they be carrying this same interest charge?

MR. HUFFMAN: Yes, I would say, on smaller implements. On large implements they are financed more directly through the bank or a specific finance company. If you bring them in the same category as the urban person, for a refrigerator, stove, or something like that, yes.

MR. IRWIN: But not on farm equipment itself?

MR. HUFFMAN: No, not on a major farm implement. They should be in a different category, they are in a different category.

MR. MUSGRAVE: But on the smaller farm implements.

MR. HUFFMAN: The smaller farm implements are, yes.

MR. IRWIN: What would the general rate be on a major implement, the bank rate, the bank borrowing rate?

MR. HUFFMAN: Yes, for major ones, yes the bank borrowing rate.

MR. IRWIN: A tractor, for example? They would be paying 6%?

MR. HUFFMAN: Six or seven, five to seven.

MR. BELANGER: Suppose we say that a farmer grows grain in the spring and doesn't know what's going to happen. (Next part inaudible). When you get that type of loan you generally go to the bank, you don't go to a -- will finance companies back you up on things such as this?

MR. MUSGRAVE: I don't know. I never tried that.

MR. SEDGWICK: Oh, no, it would be the bank.

MR. MUSGRAVE: I think so.

MR. IRWIN: Mr. Chairman, I would like to pursue this borrowing for the purchase of a tractor. Would a farmer, if he went to a bank and said, "I want to buy this tractor for $10,000," would this $10,000 have to be added to the $20,000 he has already borrowed to put in his crops in the fall and he would pay out so much as he could, or would there be a separate contract in regard to the tractor, whereby the farmer would be required to pay a monthly amount to amortize the $10,000 over three years or something? It's important because, as Mr. MacDonald raised this point, if it's a separate loan transaction from a bank with a stated nominal rate of 6% and there is an amortization repayment, then the rate increases. How is it handled?

MR. HUFFMAN: It's a separate contract. It doesn't relate to your specific operation whatsoever. It's a specific contract bearing a certain rate of interest over a certain period of time, probably two or three years, but it may not be monthly, it may be

semi-annually or annually. It depends entirely on what the product may be that you are interested in producing. Milk is generally monthly. Some other products are semi-annual or yearly. It depends on the farmer's operation.

THE CHAIRMAN: Mr. Reilly?

MR. REILLY: Just one other question. It occurs to me -- are you aware of any hardship to any individual as a result of getting overextended and having to use or become involved with credit arrangements which are beyond their capacity to repay?

MR. MUSGRAVE: I think every one of us runs across examples of that every once in a while.

MR. REILLY: Can you give us an example or two, some of the cases you know about?

MR. MUSGRAVE: I suppose so. A farmer who was, let us say, not too thrifty, or he didn't have as much drive maybe as some of his neighbours, seemed industrious and hard working enough but just didn't seem to get things done and he had bought some implements. He wasn't a good risk as far as the banker was concerned, the banker would know. And so he bought through a finance company. He was in trouble, he borrowed from our credit union and paid off the finance company. The credit union was willing to wait and give him a chance. He's paying off the credit union. But he was in trouble. He was going to lose quite a bit.

MR. REILLY: If it hadn't been for

the credit union?

MR. MUSGRAVE: That's right.

MR. REILLY: It came to his rescue.

MR. HUFFMAN: That was a good move because he cut his interest rate in half. He should have gone to the credit union in the first place.

MR. MUSGRAVE: That's right.

MR. REILLY: Are there many cases like that?

MR. MUSGRAVE: I think we could find quite a few. That was one that sprang to mind.

THE CHAIRMAN: Are there any other questions?

MR. REILLY: Is there a maximum for the credit union?

MR. MUSGRAVE: It depends on the credit union. If it's a big credit union they will have a higher maximum. If it's a smaller credit union with limited assets, they will ration the available money. A credit union that I belong to at Beaver Valley is not a large one, it has something like 80 or 90 or 100 thousand assets and the maximum loan to any one person is 3,000 in excess of what he may have in shares or deposits.

MR. MacDONALD: Isn't that interesting.

MR. MUSGRAVE: Total amount of the loan.

MR. LETHERBY: They have no trouble borrowing from a bank or credit union if they want, do they? They do that quite often, do they not, go to

banks or --

MR. MUSGRAVE: Well, a person who is in trouble with a finance company may not be too welcome at a bank.

MR. LETHERBY: I'm talking about the credit union.

MR. MUSGRAVE: Oh, the credit union belongs to the Credit Union League and may borrow from the central credit department of the League. It also belongs to the Ontario Co-op Credit Society and may borrow from the Credit Society of which it is a member. You said it could also borrow from the bank. In most cases that is true. In our case we have a very friendly arrangement with the bank manager who holds our account and we don't have any trouble at all.

MR. HUFFMAN: Mr. Chairman, could I give you another illustration?

THE CHAIRMAN: Yes, sure.

MR. HUFFMAN: One of the greatest abuses are the big companies advancing credit to production of certain commodities knowing that this carries a charge which would be very difficult to meet if the producers lose money eventually and then lose their establishment. This is one of the great fields of abuse. It may be in the production of broilers or the production of sweet corn or tomatoes or something. This credit is given to them and if they are not able in the end to pay it back they lose their property.

MR. MacDONALD: What is the range of effective interest rates in those contracts?

MR. HUFFMAN: Really the range is, the interest is concealed in the price of the commodity. Feed, we'll say, or fertilizer --

MR. SEDGWICK: I was in some litigation about that. They give you the feed and supply you with the oats or whatever it is, at a price, isn't that right?

MR. HUFFMAN: Yes.

MR. SEDGWICK: Whatever interest feature there may be is concealed in that price?

MR. HUFFMAN: This is correct.

MR. SEDGWICK: That goes back to my earlier question, you never know whether there is any interest factor or not.

MR. MacDONALD: Wouldn't it depend on the market price of the product?

MR. HUFFMAN: Yes, this has an end effect on the price, but if the price is anywhere close to the cost of production, you're the loser, the producer is the loser.

THE CHAIRMAN: The ultimate result has been that people have lost their property as well, is that right?

MR. HUFFMAN: This is correct.

THE CHAIRMAN: Are there many cases involved, do you think?

MR. HUFFMAN: Lots of them, yes. Then we don't know what to do with the property. The

man says, "This is yours", and we don't know what to do with it.

THE CHAIRMAN: Are there any other questions?

Well, Mr. Musgrave, that's a most interesting brief you presented to us, very excellent one, one of the best, and we appreciate very much you and the other gentlemen coming and making yourselves available in the middle of the day.

MR. MUSGRAVE: Thank you very much, sir. We have appreciated the treatment.

THE CHAIRMAN: We will have a five minute recess.

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THE CHAIRMAN: We will now proceed with the meeting. We have next Mr. G. C. Cormack, who is Manager of the Ontario Association of Real Estate Boards and Vice President of A. E. LePage Limited and with him we have Mr. R. E. Sanderson, who is President of the Ontario Association of Real Estate Boards. I will ask Mr. Cormack to come forward now.

MR. SANDERSON: My name is Sanderson, if I may speak in his behalf?

THE CHAIRMAN: Yes. You are President, Mr. Sanderson, of the Ontario Association of Real Estate Boards?

MR. SANDERSON: Yes, sir.

THE CHAIRMAN: Now, you have a brief? Do we have a copy of that? We all have a copy of it and if you would care to read it, we would appreciate it.

MR. SANDERSON: "Honorable Chairman and Members of the Select Committee:

"The Ontario Association of Real Estate Boards appreciate this opportunity to discuss a problem which has been in existence for a long time and has created many hardships and heartaches over the years. I am, of course, referring to second mortgage financing. This letter, you will appreciate, is not a formal submission. It simply correlates the thinking of a number of prominent and experienced Realtors with whom the writer has discussed this problem over the past few weeks." And if I may explain this -- we were invited to attend this Committee and later received a letter requesting a submission. We represent 6,500 real estate salesmen and brokers across Ontario and it is very difficult at short notice to get a representative group, so I took this on and talked with people over the phone across Ontario as well as discussing it with local brokers and salesmen in Toronto. And this is the reason for it being a letter rather than a formal submission.

"Financing the purchase of a home with a second mortgage is essentially sound business practice providing the purchasor understands and is aware of his responsibilities under the mortgage and is realistic in calculating his ability not only to carry the costs of both first and second mortgages but to be able to set aside sufficient money to meet the outstanding principal amount due usually at the end of the term of the second mortgage. It should also be pointed out

that although the second mortgage situation as it exists today is still subject to criticism, most realtors would agree that there have been vast improvements in the past three years. Mortgage discounts have been reduced and the length of the mortgage term increased which has had the over-all effect of reducing effective interest rates by approximately 4 or 5%. This situation may be attributed in part to the Mortgage Brokers Registration Act and in part to the competition in the second mortgage field. This competition has been generated by the large amounts of funds available for investment and the large number of practitioners who have entered the second mortgage lending field.

"Broadly speaking, there are two types of second mortgage situations. In the first instance, an owner wishing to sell his home is unable to find a purchasor with sufficient cash to put down to a first mortgage and therefore must accept a reduced down payment and take back a second mortgage for the difference. This mortgage may be retained by the owner or, as sometimes happens because the owner requires more cash in order to purchase a new home, he may either pledge or sell this second mortgage. The terms of the mortgage may be dictated by the vendor, or in some cases by the purchasor and in others, the terms are negotiated between the two parties. The interest rate is usually 7% and the term may be from 3 to 15 years with longer terms tending to become the rule rather than the exception. With large inventories of homes available in all categories, the purchasor today can usually find

suitable accommodation with financing to suit his requirements. With this choice available and the increasing availability of rental accommodation, there is no excuse for anyone to panic into buying a home with financing beyond their means - the situation which did exist in the late 40's and certainly in the early 50's when housing accommodation was definitely in short supply. Of course, we have had and will continue to have, people who want to run before they walk and who will always continue to purchase homes which are too expensive in relation to their income and therefore end up in financial difficulties primarily because of their over-optimistic estimates of their ability to carry specific monthly charges.

"The second situation is where an owner urgently requiring cash for one reason or another, borrows from a finance company, loan company, etc., or from a lawyer with clients' funds to invest or from an individual investing his own money and as security, pledges a second mortgage on his home. In this instance, there is likely to be extreme urgency which may tend to make this individual careless or less cautious than would ordinarily be the case. If he shops around, among the practitioners in the second mortgage financing field, he will become confused with the various interest rates quoted, talk of effective interest rates, discounts, finder's fees, inspection and appraisal fees, legal costs, etc. Mortgage applications are pushed towards him and with this urgency and confusion, anything can happen and it often does.

Effective interest rates show a wide variation which is natural since they will reflect the risk involved. The risk is calculated by the lender, (1) on his estimate of the individual's ability to repay the said mortgage, (2) the area and condition of the property to be mortgaged, and (3) the owner's equity position. In other words, the risk is pretty great if the lender calculates the value of the property at $12,000 and the mortgages total $11,000. Any small economic set-back could wipe out this equity and part also of the second mortgage. Conversely, if the equity were $3,000 above the mortgages, the risk would not be too great.

"Many mortgages are based on 7% interest and the principal amount discounted according to the estimate of risk. For example, a $4,000 mortgage at 7% for 5 years with $75 quarterly off principal may be discounted at 25% and on this basis would have an effective rate of 17.9%, or say 18%. If this mortgage were paid off in two years the Borrower would have paid an effective rate of interest of over 25%. From this, it is apparent that the discount method of calculating risk works only to the advantage of the lender.

"In our experience, the major problems in secondary financing which continually come to our attention are as follows:

"(1) Over-optimism on the part of the mortgagor of his ability to repay.

"(2) Lack of a clear understanding of the borrower's obligation under the mortgage.

"(3) Confusion in regard to the actual

interest being paid, and

"(4) Misunderstanding in regard to the renewal of the mortgage.

"With regard to the first point, we can do nothing other than to point out to the borrower more clearly his financial responsibilities. With regard to the other three points, it is our belief that this could be at least clarified providing it were possible to legislate the compulsory use of a mortgage form for all second mortgage transactions. This would be similar to the present mortgage form but with a box above the signatures in which would be set out the true details of the mortgage similar to the disclosures required under the Mortgage Brokers Registration Act. This disclosure would show the effective interest rate, terms of the mortgage, monthly payment, expiry date, the amount owing on this day, whether the mortgage was renewable and, if so, on what terms and conditions. This could not help but prevent some at least of the situations with which we are all too familiar. Some consideration might be given to making it mandatory that on a direct loan from a lender to a borrower, secured with a second mortgage, that the interest rate would reflect the risk and that the full amount of the mortgage monies be paid to the borrower less reasonable brokerage fees, inspection and appraisal fees and legal fees and disbursements. This is one way that the borrower would have a true picture of the obligation to which he is committing himself.

"It will be our pleasure to discuss

these or any other points you may have in regard to consumer credit as it applies to the real estate business."

THE CHAIRMAN: Thank you, Mr. Sanderson. Mr. Sedgwick, would you like to ask some questions?

MR. SEDGWICK: Mr. Sanderson, as the last witness, I am almost in complete agreement with what you say. I just wanted to ask one or two questions. You say there are 6,500 salesmen and brokers who constitute the Ontario Association of Real Estate Boards?

MR. SANDERSON: Yes, sir.

MR. SEDGWICK: Do any of them also register under the Mortgage Brokers Registration Act?

MR. SANDERSON: Yes. There would be some. The Secretary might know more about that. Mr. Teetzel, would you have any idea?

MR. TEETZEL: I believe they are no longer required to register because they are subject to it under the Real Estate Brokers Act.

MR. SEDGWICK: I see. So that registration under the Real Estate Business and Brokers Act permits them to act as mortgage brokers, is that right?

MR. TEETZEL: They are subject to all the terms and conditions of the Mortgage Brokers Registration Act.

MR. SEDGWICK: Thank you very much. The other question I wanted to ask, Mr. Sanderson, concerns your last recommendation on page 3, where you

suggest that in the case of a direct loan secured by a second mortgage the interest rate should reflect the risk and that there should be shown the full amount of mortgage monies to be paid. It has been said to us that some borrowers on second mortgages prefer a bonus and a low interest rate -- that is, rather than have 12% on the face of the document, they would prefer a bonus of, say, $1,000 and then a stated rate of 7% because it makes the property more easily saleable. Have you considered that at all? It has been said to us that some purchasors will shy off a deal if they see a second mortgage at 12%, even though it's only $4,000. But if they see a $5,000 mortgage at 7% they will bite.

MR. SANDERSON: This is very true, there is no doubt about that. Generally speaking the gentleman who goes to a finance company to raise money does not necessarily sell the house and pass on that mortgage which is registered against the property. So that, although in some instances it might create a hardship, generally speaking this is not the way business is done. If he were trying to do it that way he would take back the mortgage himself on the sale and then pledge or sell the mortgage after the completion of the sale.

MR. SEDGWICK: I'm thinking rather of the man who has a house with no present intention of selling it, but he wants to raise a second mortgage and he wants it to appear as a 7% mortgage so that when he does come to sell the interest rate will not be fright-

ening to the purchasor. Do think there is anything in that argument that testifies to the continuance of the bonus on second mortgages under which $4,000 is advanced and the mortgage is for $5,500?

MR. SANDERSON: I don't believe that it would create a harship. Now, Mr. Cormack, who is here with me, has managed for many years (next part lost in transfer of tapes) --- and possibly Mr. Cormack might have an opinion on that.

MR. SEDGWICK: Do you have any views on that, Mr. Cormack?

MR. CORMACK: Well the situation is this, Mr. Chairman. Any purchasor who wants to buy a property, if he is faced with the problem of paying 12% on a second mortgage, as you suggest, there is resistance on his part, I think, to take on the obligation of buying that house. Now I think that he would probably buy the property for a $5,000 second mortgage at 7% rather than pay the 12. I think this is probably an area where the purchasor, if he was properly advised as to the cost of this money at 12%, a 12% loan, if he pays this off in the short period of time the term agreed for he pays a lesser amount of interest. But he has paid the bonus if he takes only $5,000, as you suggest, at 7%. It is just a question of education on behalf of the purchasor to show to him the value of having it at 12% rather than the bonus situation.

MR. SEDGWICK: You think then there's any prejudice or buyer antagonism might be dissipated by wise counselling and education?

[illegible]

MR. CORMACK: I think it could be.

MR. SEDGWICK: If they understood that second mortgage money was worth about 12% then they wouldn't be shocked if they were paying it?

MR. CORMACK: That's right.

MR. SEDGWICK: Thank you very much. That's all I have to ask.

THE CHAIRMAN: Mr. Bukator?

MR. BUKATOR: No, I have nothing. I happen to be one of these, I guess, by the fact that I am a real estate broker. Conflict of interest, you know, I read that in the paper every day (laughter), so I'll sit back and listen.

THE CHAIRMAN: Mr. MacDonald?

MR. MacDONALD: I'm not a real estate broker, but I have no questions.

MR. BELANGER: I was going to ask you, Mr. Sanderson, being in the real estate business I suppose the situation should be used with your clients to give them directions as to what finance company they should deal with? (rest inaudible) Do you give them any directions as far as you are concerned as to who they should deal with?

MR. SANDERSON: Strangely enough we don't enter into that as much as you would think. In secondary financing, as I said in my brief, usually it's the case of the vendor, the owner, taking back the second mortgage. Now it would be to him that we might give the advice in that if he requires more cash to do whatever he wants to do, then we might advise him

and get him quotes. This is usually the way it works. You have a mortgage to sell for a vendor you would approach various people with whom you normally do this sort of business. A good many of them are solicitors who have client's funds to invest and if it's a type of mortgage which they would be interested in you certainly are going to do a lot better with them than if you had to go to a speculator in second mortgages. We would advise him, tell him that so and so offered such and such. We try to get him the best deal we can. If he thinks he can do better or it may be that we would advise him to consult a solicitor, that a solicitor quite often is in a position to dispose of the second mortgage for him. So that we very seldom get in the position of talking to a purchasor in regard to secondary finance. Now, there are certain -- in the area of real estate in which I operate, I wouldn't think that we would talk to one person in a year on this basis. And the only reason that we might in this case do it would be where there was a situation that required all cash. You do run into the odd owner who will not take back a second mortgage, he simply has to have all his cash and in order to facilitate the purchasor obtaining this home we might, under those conditions, have to arrange some type of financing so that he can write an offer up on an all cash basis. But it's very seldom in the area in which I operate. Now again, Mr. Cormack, in the east end, might have different ideas. I don't really know whether he comes in contact with that very much or not. Would you, George?

MR. CORMACK: Well, we have,from time to time, clients come to us and ask us to arrange financing,for a secondary financing, for them on the purchase of a home. In most cases what we suggest to them is that, rather than they arrange the financing themselves, to give the second mortgage back to the vendor. It's quite common today in the real estate business that in order for the vendor to make a sale of his property in the price range of 14 to 17, he has to take back a second mortgage to arrange it (rest of sentence inaudible).

THE CHAIRMAN: Mr. Hoffman? Mr. Noden?

MR. NODEN: I'm sure Mr. Reilly has a question.

MR. REILLY: Well, Mr. Chairman, Mr. Sanderson has pointed out that one of the problems in secondary financing has been -- on page 3, number 3 -- "Confusion in regard to the actual interest being paid." This is one of the reasons why this Committee is sitting. Has it be the real interest that has caused the confusion or the amount of interest in dollars that has caused the confusion? What type of confusion have you experienced?

MR. SANDERSON: Generally it's the fact that the individual is extremely upset when somebody finally calculates for him the exact amount of interest that he is paying for this loan. This always, of course, applies on a discount basis where the man is in financial problems for one reason or another, he has to get $2,000 and being unduly alarmed and excited

[illegible]

at that time, it really doesn't come through to him that in order to get this $2,000, -- this is the most important thing that he has in his mind, the fact that he signs a mortgage for $3,000 quite often doesn't register until it's too late. Then somebody calls his attention to the tremendous amount of interest he is paying and now he is very upset. Of course he has his $2,000 but nevertheless it's doubtful that he would have signed had he known -- maybe he would have had to sign anyway, but there are cases where he might have taken some alternative route if he had known he was really going to have to pay that amount of interest.

MR. REILLY: At the time the deal was consummated he was quite happy, then later he found he wasn't quite so happy?

MR. SANDERSON: Yes, this is, I think, human nature. But I think that the least we could do for these people -- we can't legislate against anxiety and possibly a little bit of stupidity -- but at least, I think, we could point out or make them aware of what they are getting into and if they proceed after that I think that this is their problem. They will have to solve it the best they can.

MR. BUKATOR: That leads up to my question. Your Association have a Directors Meeting periodically -- have you taken it up among your own, the question of complete disclosure to the man who purchases, percentagewise what he must pay annually for that loan? Or do you not? You must have had these discussions among yourselves, or have you not?

[illegible]

MR. SANDERSON: Well, our big job in this Association is education and improvement of ethics and we hope some day to be accepted as a profession. For this reason, great emphasis has always been put on the responsibility which you have to your purchasor or to your client, the vendor, to completely disclose the situation as it exists. And the only way you can stay in business is to get repeat business and you are only going to get repeat business by being honest with the people whom you deal with.

MR. BUKATOR: Have you mentioned the fact that there should be a disclosure of interest costs to the purchasor in your meetings from time to time, in your education programme have you considered the possibility?

MR. SANDERSON: This has come up on many occasions in various -- especially at our conventions.

MR. BUKATOR: Actually the real estate people have a lot of good people in the industry and they have some that are not too good. I can make reference to a case that I memorized very well because I felt that this individual was badly hurt, financially. He needed money badly for a second mortgage. He met with a broker who found money for him. I don't suppose the broker himself had it, but he obtained $2,800 cash and had him sign the form that had been made up by this Company. The borrower gets $2,800. There is a bonus, disbursements, legal fees, all bulked together to the tune of $1,200. He signed the mortgage, an

agreement that he will pay back $4,000. He pays $55 a month for three years -- it was a three year mortgage -- and right in this agreement that the man signed it states very clearly and in very bold writing, at the end of three years the borrower owes approximately $2,800. He started out with $2,800. He paid all of this money for three consecutive years -- I suppose a broker could throw up his hands and say, "Well, I didn't get it, I got a lender who had this money to save your home". He just prolonged the agony. In my opinion, real estate people who would not take part in that kind of business at all, are hurt by the few unethical ones who use this practice to get a portion of that $1,200 to help maintain their office.

MR. SANDERSON: I couldn't agree with you more, sir.

MR. BUKATOR: While there might be a conflict of interests that I was kidding about, I don't suppose my office deals with two second mortgages a year. I won't touch them because I feel that we shouldn't strap people to this injustice. And so if your people in the Association would consider complete disclosure to a man who borrows the money, to say that you will be paying 29%, it actually figures out to, he will not borrow the money. I think maybe, being a little bit political, Mr. Chairman, that I have been a very good boy up to this time, the government should step in to second mortgage monies in cases where they may be in a position to see their way clear to assist these people who have to bulk a few dollars together

to help them over the rough road. That would be by way of recommendation, I think the government should step in. I have no questions, but I thought I would add that.

MR. REILLY: Of the 6,500 brokers, how many of them have a licence now to operate as mortgage brokers?

MR. SANDERSON: Due to the somewhat uncertain set-up, when this originally came out there was considerable uncertainty as to what your obligations were. Quite a few, in order to protect themselves, took out a licence. There are very, very few real estate brokers who actually deal in mortgages as such. Now, we arrange a lot of mortgages but they are through the standard companies, life companies, trust companies and so on. We do not arrange mortgages through individuals. We do not loan money, we do not set ourselves out. People come in to us to borrow money and we say we are sorry, we are not in the finance business. If it is something which we can help them with and honestly feel that we can do a good job we might try to help them, but we don't make a business of it. We make no money out of it. We might do it as a service, but with the fantastic amount of advertising that's going on and the most desirable advertising,that if you need money you just come down and there is no problem. More and more people, of course, are going to the source of these ads to tell their tale of woe and attempt to get money. I don't believe, in answer to your question, that there are very many brokers who

could be set out as we would interpret it as a mortgage broker, very, very few. You might run into this more in smaller communities where, as was mentioned earlier, money is a little more difficult to obtain and certain brokers may have access to funds which they would loan out for an individual on an investment basis.

MR. REILLY: You wouldn't recommend to your clients that there are certain people who would gladly redeem your second mortgage for a discount?

MR. SANDERSON: No. We all, in fact, where the situation arises, we try to have the people retain the second mortgage because it's a pretty fair investment but if they have to, for one reason or another, have cash -- as I say, they can either see their solicitor (next portion lost in change of belt)

MR. REILLY: If you are a real estate salesman where would you get your quotes then?

MR. SANDERSON: Usually we deal -- we have people coming the the office all the time, of course, soliciting business, you know --

MR. REILLY: Mortgage brokers?

MR. SANDERSON: Yes, I would say they were mortgage brokers. We usually have over the years -- you develop sources of supply of money, certain solicitors always seem to have a very adequate supply of money for second mortgages, they are the prime source as far as we are concerned because, generally speaking, you get a much better deal than you do through a so-called mortgage broker.

MR. REILLY: What's the prevailing discount on second mortgages now?

MR. SANDERSON: Well, this would depend. You get into a realm there -- it would depend on the risk and --

MR. REILLY: How good the mortgage is?

MR. SANDERSON: Yes. But it's down substantially from what it was, for instance, three years ago. A reasonably good second mortgage you can discount at 12%, 13%. It used to be they would want 15, 18%, sometimes better.

MR. REILLY: In your statements here you say that financing the purchase of homes with a second mortgage is essentially sound business and yet at the same time there is a question in your mind of creating considerable confusion in this kind of business.

MR. SANDERSON: Well, the confusion arises generally not from this type of transaction but where a man is borrowing money from a finance company or from whoever he is borrowing it from, and pledges as security a second mortgage on his house. This is generally where we run into the problem. It's becoming more and more prevalent. You, in order to sell your house, have to take back a second mortgage, so this leaves you less cash to purchase another house which means that you, probably, have to give back a second mortgage on that and that individual, again, doesn't have enough cash so he, probably, has to give back. Now someplace along the line this comes to a stop because the person won't take back a second mortgage, you see.

But this is how the thing seems to run these days. There doesn't appear to be all that amount of cash around and more financing is being done through second mortgages. But nobody gets hurt on the basis of giving back a second mortgage as part of the purchase price. If he feels the price is reasonable he pays it and part of his payment is a second mortgage.

MR. REILLY: Supposing second mortgages didn't exist today in the transactions that are taking place, would this eliminate some problems?

MR. SANDERSON: It would make it very difficult, yes, because specifically in some of the older areas in the City where your first mortgage financing is not too adequate, it would make it almost impossible for people to buy some of these older houses because they just wouldn't have the cash necessary to make a cash to a mortgage deal.

MR. NODEN: Generally speaking, how is real estate bought now, real estate sales?

MR. SANDERSON: Very good. I couldn't say anything else.(Laughter)

MR. REILLY: I'm sure there are a lot of real estate men who say otherwise though. Not necessarily now, but at varying times.

MR. SANDERSON: The best year we have had since --

MR. REILLY: Since last year?

MR. SANDERSON: Since last year.(laughter).

MR. REILLY: What percentage of the

homes would have two mortgages on them?

MR. SANDERSON: This is very difficult because in the area in which I operate I would -- it's a wild guess -- but I would say 15%. Now, in the east end, George would probably have a different figure. What would you say in the east end?

MR. CORMACK: Well, I don't have any figures on it but I would say the figure would be in excess of 50%.

THE CHAIRMAN: In the City here.

MR. CORMACK: In the lower priced range homes, sir. I'm not talking now of higher priced homes.

THE CHAIRMAN: About 50% of the homes, though, would have two mortgages.

MR. SANDERSON: This would be in the older areas where your first mortgage financing is rather inadequate.

MR. MacDONALD: I saw a figure a week or so ago that the estimate is 90% of homes have mortgages on them.

MRS. DELL: We were told 99% and 75% have second mortgages.

MR. SANDERSON: Well, this might be, but in houses -- we'll say from 19 -- say from 20,000 to 35,000 -- we don't run into too much secondary financing unless it's a temporary situation where a man has been moved from Winnipeg or something, he hasn't sold his house and he may need temporary financing until such a time as he can dispose of his house in

Winnipeg.

MR. BUKATOR: You mentioned, Mr. Noden, that to eliminate the second mortgage, or not to have them,-- a man built a home six or seven years ago under the NHA plan would want to sell that home today next to a unit that was built six months ago, same square feet in it, almost the same price. The man who had the home for six or seven years would have an equity of between three and four thousand dollars in that. Now the one who would like to buy the established home finds himself in this position -- having to buy the new one next door where he has to do his own grading and landscaping because he can get 95% mortgage on an NHA home and 1200, 1700 will buy it for him. Now, he would prefer the older home that is established and well landscaped, but the only way he can get it if he doesn't have that $3,000, plus the 1500 or 1700, is to persuade the vendor in this case to take back a second mortgage. And often these second mortgages go to old retired people who are looking for a better return for their money than in the bank, so they get 7% on that second mortgage. It's not inflated the price at all because the price is determined by the two homes next to each other, so nobody has too much of an opportunity to sell that mortgage at a discount because he would be losing money. But this is why the second mortgage is a must and is with us all the time and it will be. I don't know how you could get away without it.

MR. SANDERSON: This too is something

[illegible]

that I believe the government should be very much aware of, that every time the NHA amounts are increased, it creates a tremendous hardship on the people who have already purchased NHA houses. We have situations now where people with three or four year old NHA houses, to say they are unsaleable is not correct, but they are -- it's very difficult to sell them because you can go into a new unit for much less money, nobody wants to give back a second mortgage if they can help it, and it's creating a great hardship in many NHA areas every time this mortgage amount is increased.

THE CHAIRMAN: The down payment, you mean, becomes smaller?

MR. SANDERSON: Yes, the down payment becomes smaller.

MR. SEDGWICK: (Question inaudible)

MR. SANDERSON: Yes, but you see, to take extreme cases, say four years ago a man put $3,000 into a house. Today you could probably buy the equivalent house of $1,500. So who is going to put down three, or by the time he gets him improvements out it's maybe up to 4,000. He just can't get his cash out of that house. It creates hardships where a person is moved or transferred to another area.

MR. BUKATOR: By the same token doesn't this put a lot of people into houses that wouldn't otherwise be there?

MR. SANDERSON: I agree, you can't balance the thing out. You hurt some people and help others.

MR. BUKATOR: That's why a good second mortgage where the government would step in and pick it up, the equity is theirs. Maybe they should refinance it, maybe that would be the answer, from the NHA level.

THE CHAIRMAN: Do any of the Committee have further questions?

Well, Mr. Sanderson , we appreciate very much you being here with us today and presenting your brief. I neglected to mention that Mr. Teetzel, your Executive-Secretary of the Ontario Association of Real Estate Boards is also here with you. He is the gentleman over there on the right on the far side. Thanks again for coming. We appreciate the information.

MR. SANDERSON: Thank you very much.

THE CHAIRMAN: It's been very helpful. Gentlemen, we will adjourn now until August 26th. You will be getting notices of the next meeting. I believe that you've put the forms in to Mrs. Dell, that she requires. Is there anything else. This meeting is now adjourned.

---MEETING ADJOURNED AT 3:55 P.M.